

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2018

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-38224

**PDL Community Bancorp**

(Exact Name of Registrant as Specified in its Charter)

**Federal**  
(State or other jurisdiction of  
incorporation or organization)  
2244 Westchester Avenue  
Bronx, NY  
(Address of principal executive offices)

82-2857928  
(I.R.S. Employer  
Identification No.)

10462  
(Zip Code)

Registrant's telephone number, including area code: (718) 931-9000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 14, 2018, the registrant had 18,463,028 shares of common stock, \$0.01 par value per share, outstanding.

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## PART I—FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements.

## PDL Community Bancorp and Subsidiaries

Consolidated Statements of Financial Condition  
March 31, 2018 and December 31, 2017  
(Dollars in thousands, except share data)

	March 31, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Cash and due from banks (Note 2):		
Cash	\$ 6,570	\$ 24,746
Interest-bearing deposits in banks	52,409	34,978
Total cash and cash equivalents	58,979	59,724
Available-for-sale securities, at fair value (Note 3)	28,422	28,897
Loans receivable, net (Note 4)	823,014	798,703
Accrued interest receivable	3,202	3,335
Premises and equipment, net (Note 5)	27,684	27,172
Federal Home Loan Bank Stock (FHLB), at cost	1,673	1,511
Deferred tax assets (Note 8)	3,801	3,909
Other assets	2,848	2,271
<b>Total assets</b>	<b>\$ 949,623</b>	<b>\$ 925,522</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Deposits (Note 6)	\$ 752,267	\$ 713,985
Accrued interest payable	61	42
Advance payments by borrowers for taxes and insurance	6,999	5,025
Advances from the Federal Home Loan Bank and others (Note 7)	20,000	36,400
Other liabilities	4,582	5,285
<b>Total liabilities</b>	<b>783,909</b>	<b>760,737</b>
Commitments and contingencies (Note 11)		
Stockholders' Equity:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value; 50,000,000 shares authorized; 18,463,028 shares issued and outstanding	185	185
Additional paid-in-capital	84,419	84,351
Retained earnings	95,796	94,855
Accumulated other comprehensive loss (Note 14)	(8,052)	(7,851)
Unearned compensation - ESOP; 663,438 shares (Note 9)	(6,634)	(6,755)
<b>Total stockholders' equity</b>	<b>165,714</b>	<b>164,785</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 949,623</b>	<b>\$ 925,522</b>

The accompanying notes are an integral part of the consolidated financial statements.

PDL Community Bancorp and Subsidiaries

Consolidated Statements of Income  
 Three Months Ended March 31, 2018 and 2017  
 (Dollars in thousands, except share data)

	<u>For the Three Months Ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
	(Unaudited)	
Interest and dividend income:		
Interest on loans receivable	\$ 10,386	\$ 8,592
Interest and dividends on investment securities and FHLB stock	324	202
<b>Total interest and dividend income</b>	<u>10,710</u>	<u>8,794</u>
Interest expense:		
Interest on certificates of deposit	1,750	1,316
Interest on other deposits	185	151
Interest on borrowings	98	29
<b>Total interest expense</b>	<u>2,033</u>	<u>1,496</u>
<b>Net interest income</b>	<u>8,677</u>	<u>7,298</u>
Provision for loan losses (Note 4)	94	52
<b>Net interest income after provision for loan losses</b>	<u>8,583</u>	<u>7,246</u>
Noninterest income:		
Service charges and fees	223	229
Brokerage commissions	96	118
Late and prepayment charges	211	211
Other	355	200
<b>Total noninterest income</b>	<u>885</u>	<u>758</u>
Noninterest expense:		
Compensation and benefits	4,458	3,829
Occupancy expense	1,491	1,425
Data processing expenses	408	448
Direct loan expenses	155	195
Insurance and surety bond premiums	89	82
Office supplies, telephone and postage	300	254
FDIC deposit insurance assessment	68	66
Other operating expenses	1,290	797
<b>Total noninterest expense</b>	<u>8,259</u>	<u>7,096</u>
<b>Income before income taxes</b>	<u>1,209</u>	<u>908</u>
Provision for income taxes (Note 8)	268	345
<b>Net income</b>	<u>\$ 941</u>	<u>\$ 563</u>
Earnings per share for the period January 1, 2018 to March 31, 2018: (Note 10)		
Basic	<u>\$ 0.05</u>	<u>N/A</u>
Diluted	<u>\$ 0.05</u>	<u>N/A</u>

The accompanying notes are an integral part of the consolidated financial statements.

PDL Community Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income  
 Three Months Ended March 31, 2018 and 2017  
 (In thousands)

	For the Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
Net income	\$ 941	\$ 563
Net change in unrealized gains (losses) on securities available-for-sale:		
Unrealized gain (losses)	(169)	(91)
Income tax effect	(10)	30
Unrealized gains (losses) on securities, net of tax	(179)	(61)
Pension benefit liability adjustment:		
Net gain (loss) during the period	(34)	(31)
Income tax effect	12	11
Pension liability adjustment, net of tax	(22)	(20)
Total other comprehensive income (loss), net of tax	(201)	(81)
<b>Total comprehensive income</b>	<b>\$ 740</b>	<b>\$ 482</b>

The accompanying notes are an integral part of the consolidated financial statements.

PDL Community Bancorp and Subsidiaries

Consolidated Statements of Stockholders' Equity  
Three Months Ended March 31, 2018 and 2017

(Dollars in thousands, except share data)

	Common Stock		Additional	Retained	Accumulated	Unallocated	Total
	Shares	Amount	Paid-in	Earnings	Other	Common	
			Capital		Comprehensive	Stock	
					Loss	of ESOP	
<b>Balance, December 31, 2016</b>	—	\$ —	\$ —	\$ 99,242	\$ (6,250)	\$ —	\$ 92,992
Net income	—	—	—	563	—	—	563
Other comprehensive loss, net of tax	—	—	—	—	(81)	—	(81)
<b>Balance, March 31, 2017 (Unaudited)</b>	<u>—</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 99,805</u>	<u>\$ (6,331)</u>	<u>\$ —</u>	<u>\$ 93,474</u>
<b>Balance, December 31, 2017</b>	18,463,028	\$ 185	\$ 84,351	\$ 94,855	\$ (7,851)	\$ (6,755)	\$ 164,785
Net income	—	—	—	941	—	—	941
Other comprehensive loss, net of tax	—	—	—	—	(201)	—	(201)
ESOP shares committed to be released (12,063 shares)	—	—	68	—	—	121	189
<b>Balance, March 31, 2018 (Unaudited)</b>	<u>18,463,028</u>	<u>\$ 185</u>	<u>\$ 84,419</u>	<u>\$ 95,796</u>	<u>\$ (8,052)</u>	<u>\$ (6,634)</u>	<u>\$ 165,714</u>

The accompanying notes are an integral part of the consolidated financial statements.

PDL Community Bancorp and Subsidiaries

Consolidated Statements of Cash Flows  
Three Months Ended March 31, 2018 and 2017  
(In thousands)

	For the Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
Cash Flows From Operating Activities:		
Net income	\$ 941	\$ 563
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums on securities, net	4	7
Gain on sale of loans	(142)	—
Provision for loan losses	94	52
Depreciation and amortization	417	404
Deferred income taxes	109	43
ESOP compensation	189	—
Changes in assets and liabilities:		
Decrease (increase) in accrued interest receivable	133	(42)
Increase in other assets	(577)	(1,036)
Increase (decrease) in accrued interest payable	19	(2)
Net increase in other liabilities	1,238	2,956
<b>Net cash provided by operating activities</b>	<b>2,425</b>	<b>2,945</b>
Cash Flows From Investing Activities:		
Proceeds from redemption of FHLB Stock	—	2,760
Purchases of FHLB Stock	(162)	(3,883)
Proceeds from maturities, calls and principal repayments on available-for-sale securities	302	655
Proceeds from sales of loans	2,992	—
Net increase in loans	(27,255)	(35,430)
Purchases of premises and equipment	(929)	(63)
<b>Net cash used in investing activities</b>	<b>(25,052)</b>	<b>(35,961)</b>
Cash Flows From Financing Activities:		
Net increase in deposits	38,282	12,804
Proceeds from advances	3,600	50,000
Repayments of advances	(20,000)	(25,000)
<b>Net cash provided by financing activities</b>	<b>21,882</b>	<b>37,804</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(745)</b>	<b>4,788</b>
Cash and Cash Equivalents:		
Beginning	59,724	11,716
Ending	<u>\$ 58,979</u>	<u>\$ 16,504</u>
Supplemental Disclosures:		
Cash paid during the period:		
Interest	<u>\$ 2,012</u>	<u>\$ 1,498</u>
Income taxes	<u>\$ 225</u>	<u>\$ 77</u>

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

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**Note 1. Nature of Business and Summary of Significant Accounting Policies**

Basis of Presentation and Consolidation:

The unaudited interim Consolidated Financial Statements of PDL Community Bancorp (the “Company”) presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10Q and do not include all of the information and note disclosures required by the U.S. generally accepted accounting principles (“GAAP”). In the opinion of management, all adjustments and disclosures considered necessary for the fair presentation of the accompanying Consolidated Financial Statements have been included. Interim results are not necessarily reflective of the results of the entire year. The accompanying unaudited Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto for the year ended December 31, 2017 included in the Company’s annual report on Form 10-K.

The unaudited interim Consolidated Financial Statements include the accounts of the Company, its wholly owned subsidiary Ponce Bank (the “Bank”), and the Bank’s wholly-owned subsidiaries. The Bank’s subsidiaries consist of PFS Service Corp., which owns some of the Bank’s real property, and Ponce De Leon Mortgage Corp., which is a mortgage banking entity. All significant intercompany transactions and balances have been eliminated in consolidation.

Reorganization and Stock Offering:

On September 29, 2017, Ponce De Leon Federal Bank reorganized into a two-tier mutual holding company structure with a mid-tier stock holding company. The Company sold 8,308,362 shares of common stock at \$10.00 per share, including 723,751 shares purchased by the Company’s Employee Stock Ownership Plan (“ESOP”). In addition, the Company issued 9,545,387 shares to Ponce Bank Mutual Holding Company, the Company’s mutual holding company parent (the “MHC”) and 609,279 shares to The Ponce De Leon Foundation (“Foundation”), a charitable foundation that was formed in connection with the stock offering and is dedicated to supporting charitable organizations operating in the Bank’s local community. A total of 18,463,028 shares of common stock were outstanding following the completion of the stock offering. As a result of the reorganization, the reporting entity changed from Ponce De Leon Federal Bank to PDL Community Bancorp.

The direct costs of the Company’s stock offering of \$4,988 were deferred and deducted from the proceeds of the offering.

Nature of Operations:

The Bank is a federally chartered savings association headquartered in the Bronx, New York. Ponce De Leon Federal Bank was originally chartered in 1960 as a federally chartered mutual savings and loan association under the name Ponce De Leon Federal Savings and Loan Association. In 1985, the Bank changed its name to “Ponce De Leon Federal Savings Bank.” In 1997, the Bank changed its name again to “Ponce De Leon Federal Bank.” Upon the completion of its reorganization into the MHC, the assets and liabilities of Ponce De Leon Federal Bank were transferred to and assumed by the Bank, a federally chartered stock savings association, owned 100% by PDL Community Bancorp and known as and conducting business under the name “Ponce Bank.” The Bank will continue to be subject to comprehensive regulation and examination by the Office of Comptroller of the Currency (the “OCC”).

The Bank’s business is conducted through the administrative office and 13 branch offices. The banking offices are located in the Bronx, Manhattan, Queens and Brooklyn, New York and Union City, New Jersey. The primary market area currently consists of the New York City metropolitan area.

The Bank’s business primarily consists of taking deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in mortgage loans, consisting of one-to-four family residential (both investor-owned and owner-occupied), multifamily residential, nonresidential properties and construction and land, and, to a lesser extent, in business and consumer loans. The Bank also invests in securities, which have historically consisted of U.S. government and federal agency securities and securities issued by government-sponsored or owned enterprises, as well as, mortgage-backed securities and Federal Home Loan Bank stock. The Bank offers a variety of deposit accounts, including demand, savings, money markets and certificates of deposit accounts.



Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

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**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

The following is a summary of the Company's significant accounting policies:

Use of Estimates: In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the consolidated statement of financial condition, and revenues and expenses for the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the valuation of loans held for sale, the valuation of deferred tax assets and investment securities, and the determination of pension benefit obligations.

Interim Financial Statements: The interim consolidated financial statements at March 31, 2018, and for the three months ended March 31, 2018 and 2017 are unaudited and reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three months ended March 31, 2018, are not necessarily indicative of the results to be achieved for the remainder of the year ending December 31, 2018, or any other period.

Significant Group Concentrations of Credit Risk: Most of the Bank's activities are with customers located within New York City. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in the local market conditions. Note 3 discusses the types of securities that the Bank invests in. Notes 4 and 11 discuss the types of lending that the Bank engages in, and other concentrations.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand and amounts due from banks (including items in process of clearing). For purposes of reporting cash flows, the Bank considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash flows from loans originated by the Bank, interest-bearing deposits in financial institutions, and deposits are reported net.

Securities: Management determines the appropriate classification of securities at the date individual investment securities are acquired, and the appropriateness of such classification is reassessed at each statement of financial condition date.

Debt securities that management has the positive intent and ability to hold to maturity, if any, are classified as "held to maturity" and recorded at amortized cost. Trading securities, if any, are carried at fair value, with unrealized gains and losses recognized in earnings. Securities not classified as held to maturity or trading, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of tax. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the consolidated statement of income (loss) and 2) OTTI related to other factors, which is recognized in other comprehensive income (loss).

The credit loss is defined as the difference between the discounted present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method. The sale of a held-to-maturity security within three months of its maturity date or after collection of at least 85% of the principal outstanding at the time the security was acquired is considered a maturity for purposes of classification and disclosure.

Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

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**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

Federal Home Loan Bank Stock: The Bank is a member of the Federal Home Loan Bank of New York (the "FHLB"). Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans Receivable: Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at current unpaid principal balances, net of the allowance for loan losses and including net deferred loan origination fees and costs.

Interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the interest method without anticipating prepayments.

A loan is moved to nonaccrual status in accordance with the Bank's policy typically after 90 days of non-payment. The accrual of interest on mortgage and commercial loans is generally discontinued at the time the loan becomes 90 days past due unless the loan is well-secured and in process of collection. Consumer loans are typically charged-off no later than 120 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off if collection of principal or interest is considered doubtful. All nonaccrual loans are considered impaired loans.

All interest accrued but not received for loans placed on nonaccrual are reversed against interest income. Interest received on such loans is accounted for on the cash basis or recorded against principal balances only, until qualifying for return to accrual. Cash basis interest recognition is only applied on nonaccrual loans with a sufficient collateral margin to ensure no doubt with respect to the collectability of principal. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and remain current for a period of time (typically six months) and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings ("TDR") and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impaired loans are measured for impairment using the fair value of the collateral, present value of cash flows, or the observable market price of the note. Impairment measurement for all collateral dependent loans, excluding accruing TDR's, is based on the fair value of collateral, less costs to sell, if necessary. A loan is considered collateral dependent if repayment of the loan is expected to be provided solely by the sale or the operation of the underlying collateral.

Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

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**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

When the Bank modifies a loan in a TDR, management evaluates for any possible impairment using either the discounted cash flows method, where the value of the modified loan is based on the present value of expected cash flows, discounted at the contractual interest rate of the original loan agreement, or by using the fair value of the collateral less selling costs, if repayment under the modified terms becomes doubtful.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced over a rolling 12 quarter average period. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

When establishing the allowance for loan losses, management categorizes loans into risk categories reflecting individual borrower earnings, liquidity, leverage and cash flow, as well as the nature of underlying collateral. These risk categories and relevant risk characteristics are as follows:

Residential and Multifamily Mortgage Loans: The majority of loans at the Bank are secured by first mortgages. Residential and multifamily mortgage loans are typically underwritten with loan-to-value ratios ranging from 65% to 90%. The primary risks involved in residential mortgages are the borrower's loss of employment, or other significant event, that negatively impacts the source of repayment. Additionally, a serious decline in home values could jeopardize repayment in the event that the underlying collateral needs to be liquidated to pay off the loan.

Nonresidential Mortgage Loans: Nonresidential mortgage loans are primarily secured by commercial buildings, office and industrial buildings, warehouses, small retail shopping centers and various special purpose properties, including hotels, restaurants and nursing homes. These loans are typically underwritten at no more than 75% loan-to-value ratio. Although terms vary, commercial real estate loans generally have amortization periods of 15 to 30 years, as well as balloon payments of 10 to 15 years, and terms which provide that the interest rate is adjusted on a 5 year schedule.

Construction and Land Loans: Construction real estate loans consist of vacant land and property that is in the process of improvement. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet improved for the planned development, there is the risk that government approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs. Construction real estate loans generally have terms of six months to two years during the construction period with fixed rates or interest rates based on a designated index.

Business Loans: Business loans are loans for commercial, corporate and business purposes, including issuing letters of credit. These loans are secured by business assets or may be unsecured and repayment is directly dependent on the successful operation of the borrower's business and the borrower's ability to convert the assets to operating revenue. They possess greater risk than most other types of loans because the repayment capacity of the borrower may become inadequate. Business loans generally have terms of five years to seven years or less and interest rates that float in accordance with a designated published index. Substantially all such loans are backed by the personal guarantees of the owners of the business.

Consumer Loans: Consumer loans generally have higher interest rates than mortgage loans. The risk involved in consumer loans is the type and nature of the collateral and, in certain cases, the absence of collateral. Consumer loans include passbook loans and other secured and unsecured loans that have been made for a variety of consumer purposes.

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

**Loans Held for Sale:** Loan sales occur from time to time as part of strategic business or regulatory compliance initiatives. Loans held for sale, including deferred fees and costs, are reported at the lower of cost or fair value as determined by expected bid prices from potential investors. Loans are sold without recourse and servicing released. When a loan is transferred from portfolio to held-for-sale and the fair value is less than cost, a charge-off is recorded against the allowance for loan losses. Subsequent declines in fair value, if any, are charged against earnings.

**Transfers of Financial Assets:** Transfers of financial assets are accounted for as sales when all of the components meet the definition of a participating interest and when control over the assets has been surrendered. A participating interest generally represents (1) a proportionate (pro rata) ownership interest in an entire financial asset, (2) a relationship where from the date of transfer all cash flows received from the entire financial asset are divided proportionately among the participating interest holders in an amount equal to their share of ownership, (3) the priority of cash flows has certain characteristics, including no reduction in priority, subordination of interest, or recourse to the transferor other than standard representation or warranties, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through either (a) an agreement to repurchase them before their maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a clean-up call.

**Premises and Equipment:** Premises and equipment are stated at cost, less accumulated depreciation.

Depreciation is computed and charged to operations using the straight-line method over the estimated useful lives of the respective assets as follows:

	Years
Building	39
Building improvements	15 - 39
Furniture, fixtures, and equipment	3 - 10

Leasehold improvements are amortized over the shorter of the improvements' estimated economic lives or the related lease terms, including extensions expected to be exercised. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred and improvements are capitalized. Leasehold improvements in process are not amortized until the assets are placed in operation.

**Impairment of Long-Lived Assets:** Long-lived assets, including premises and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment is indicated by that review, the asset is written down to its estimated fair value through a charge to noninterest expense.

**Other Real Estate Owned:** Other Real Estate Owned ("OREO") represents properties acquired through, or in lieu of, loan foreclosure or other proceedings. OREO is initially recorded at fair value, less estimated disposal costs, at the date of foreclosure, which establishes a new cost basis. After foreclosure, the properties are held for sale and are carried at the lower of cost or fair value, less estimated costs of disposal. Any write-down to fair value, at the time of transfer to OREO, is charged to the allowance for loan losses. Properties are evaluated regularly to ensure that the recorded amounts are supported by current fair values and charges against earnings are recorded as necessary to reduce the carrying amount to fair value, less estimated costs to dispose. Costs relating to the development and improvement of the property are capitalized, subject to the limit of fair value of the OREO, while costs relating to holding the property are expensed. Gains or losses are included in operations upon disposal.

Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

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**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

**Income Taxes:** The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that all or some portion of the deferred tax assets will not be realized.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

As of March 31, 2018 and December 31, 2017, there are no liabilities recorded related to uncertain tax positions. Income tax returns filed for years before 2014 are no longer subject to income tax examinations by U.S. federal, state or local tax authorities.

Interest and penalties associated with unrecognized tax benefits, if any, would be classified as additional provision for income taxes in the consolidated statements of income (loss).

**Related Party Transactions:** Directors and officers of the Company and their affiliates have been customers of and have had transactions with the Company, and it is expected that such persons will continue to have such transactions in the future. Management believes that all deposit accounts, loans, services and commitments comprising such transactions were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers who are not directors or officers. In the opinion of management, the transactions with related parties did not involve more than normal risk of collectability, nor favored treatment or terms, nor present other unfavorable features. Note 15 contains details regarding related party transactions.

**Employee Benefit Plans:** The Company maintains Ponce Bank's 401(K) Plan, the noncontributory defined benefit plan, as well as, the Supplemental Executive Retirement Plans (the "SERP's"). The noncontributory defined benefit pension plan was effectively frozen on May 31, 2007. The funding policy is to contribute annually the amounts sufficient to meet the minimum funding standards established by the Employee Retirement Income Security Act ("ERISA") and such additional amounts as determined by management based on actuary recommendations.

**Employee Stock Ownership Plan:** Compensation expense is recorded as shares are committed to be released with a corresponding credit to unearned ESOP shares at the average fair market value of the shares during the year and the shares become outstanding for earnings per share computations. Compensation expense is recognized ratably over the service period based upon management's estimate of the number of shares expected to be allocated by the ESOP. The difference between the average fair market value and the cost of the shares allocated by the ESOP is recorded as an adjustment to additional paid-in-capital. Unallocated common shares held by the Company's ESOP are shown as a reduction in stockholders' equity and are excluded from weighted-average common shares outstanding for both basic and diluted earnings per share calculations until they are committed to be released.

**Comprehensive Income (Loss):** Comprehensive income (loss) consists of net income and other comprehensive income (loss), which are both recognized as separate components of equity. Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and unrecognized gains and losses on actuarial loss and prior service cost of the defined benefit plan.

Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

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**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the operations and financial position of the Company.

Fair Value of Financial Instruments: Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 12. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Segment Reporting: While management monitors the revenue streams of the various products and services, the identifiable segments and operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregate in one reportable operating segment.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Earnings Per Share (“EPS”): Basic EPS represents net income attributable to common shareholders divided by the weighted-average number of common shares outstanding during the period less unallocated ESOP shares. Diluted EPS is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding, plus the effect of potential dilutive common stock equivalents outstanding during the period.

Recent Accounting Pronouncements:

As an emerging growth company (“EGC”) as defined in Rule 12b-2 of the Exchange Act, the Company has elected to use the extended transition period to delay the adoption of new or reissued accounting pronouncements applicable to public companies until such pronouncements are made applicable to nonpublic companies. As of March 31, 2018, there is no significant difference in the comparability of the consolidated financial statements as a result of this extended transition period.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “*Revenue from Contracts with Customers (Topic 606)*”, that amended guidance on revenue recognition from contracts with customers. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most contract revenue recognition guidance, including industry-specific guidance. The core principle of the amended guidance reportedly is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amended guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, for public business entities. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Bank’s primary source of revenue is interest income on financial assets and income from mortgage banking activities, which are explicitly excluded from the scope of the new guidance. As a result, the adoption of this update is not expected to have a material impact on the Company’s consolidated financial statements. However, the Company will continue to monitor developments and additional guidance up to the effective date of these amendments.

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

In January 2016, the FASB issued ASU 2016-01, “*Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities.*” The FASB reported that the main objective in developing this new ASU was to enhance the reporting model for financial instruments, to provide users of financial statements with more useful information. The update requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. It addresses the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The amendment eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. It requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Financial assets and financial liabilities are to be presented separately by measurement category and form of financial asset and the need for a valuation allowance on a deferred tax asset related to available-for-sale securities should be evaluated with the entity’s other deferred tax assets. The amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, for public business entities. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The adoption of this update is not expected to have a material impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “*Leases (Topic 842).*” This ASU requires all lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date. Lessor accounting remains largely unchanged under the new guidance. The guidance is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that reporting period, for public business entities. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. A modified retrospective approach must be applied for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements.

The Company has begun its evaluation of the amended guidance including the potential impact on its consolidated financial statements. To date, the Company has identified its leased office spaces as within the scope of the guidance. The Company currently leases six branches and the new guidance will result in the establishment of a right to use asset and corresponding lease obligations. The Company continues to evaluate the impact of the guidance, including determining whether other contracts exist that are deemed to be in scope. As such, no conclusions have yet been reached regarding the potential impact of adoption on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “*Compensation - Stock Compensation (Topic 718).*” The reported objective of this ASU is to simplify accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under the update, all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) should be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. An entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current accounting) or account for forfeitures when they occur. Within the statement of cash flows, excess tax benefits should be classified along with other income tax cash flows as an operating activity, and cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity. The amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, for public business entities. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The Company expects to apply the amendments in this update by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted, or prospectively, as applicable. The adoption of this update is not expected to have a material impact on the Company’s consolidated financial statements.

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

In June 2016, the FASB issued ASU 2016-13, "*Measurement of Credit Losses on Financial Instruments*." This ASU reportedly significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard is to replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, is to apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also reportedly simplifies the accounting model for purchased credit-impaired debt, securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years, for public business entities. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, we will adopt the amendments in this update beginning after December 15, 2020, including interim periods within those fiscal years. Entities have to apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach).

Although early adoption is permitted, the Company does not expect to elect that option. The Company has begun its evaluation of the amended guidance including the potential impact on its consolidated financial statements. As a result of the required change in approach toward determining estimated credit losses from the current "incurred loss" model to one based on estimated cash flows over a loan's contractual life, adjusted for prepayments (a "life of loan" model), the Company expects that the new guidance will result in an increase in the allowance for loan losses, particularly for longer duration loan portfolios. The Company also expects that the new guidance may result in an allowance for debt securities. In both cases, the extent of the change is indeterminable at this time as it will be dependent upon portfolio composition and credit quality at the adoption date, as well as economic conditions and forecasts at that time.

In August 2016, the FASB issued ASU 2016-15, "*Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments*." This ASU reportedly is intended to reduce diversity in how certain cash receipts and cash payments are presented and classified in the statements of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, for public business entities. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. A retrospective transition method should be applied to each period presented, unless it is impracticable to apply the amendments retrospectively for some of the issues, then the amendments for those issues would be applied prospectively as of the earliest date practicable. The adoption of this update is not expected to have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07 "*Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*." The ASU requires that an employer report the service cost component with other compensation cost arising from services rendered by the pertinent employees during the period. The amendment also requires the components of net benefit cost to be presented separately in the income statement from the service cost component and not within income from operations. ASU 2017-07 is effective for interim and annual reporting for public business entities beginning after December 15, 2017. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The adoption of this update is not expected to have a material impact on the Company's consolidated financial statements.



## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

In March 2017, the FASB issued ASU 2017-08 “Receivables – Non-Refundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.” The ASU requires premiums on callable debt securities to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. ASU 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018 for public business entities. Early adoption is permitted beginning after December 15, 2018, including interim periods within those fiscal years. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. ASU 2017-08 will not have a material impact on the Company’s consolidated financial position, results of operations or disclosures.

In February 2018, the Financial Accounting Standards Board issued Accounting Standards Update 2018-02, “Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This amendment allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. This amendment is effective for years beginning after December 15, 2018. Early adoption is permitted. The Company has not elected to adopt this standard as of the date of these consolidated financial statements.

**Note 2. Restrictions on Cash and Due From Banks**

The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank, based on a percentage of deposits. The Bank had \$6,221 in cash to cover its minimum reserve requirement of \$6,020 at March 31, 2018, and \$24,334 in cash to cover its minimum reserve requirements of \$23,870 at December 31, 2017, respectively.

**Note 3. Available-for-Sale Securities**

The amortized cost, gross unrealized gains and losses, and fair value of available-for-sale securities at March 31, 2018 and December 31, 2017 are summarized as follows:

	March 31, 2018			Fair Value
	(Unaudited)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government and Federal Agencies	\$ 24,912	\$ —	\$ (518)	\$ 24,394
Mortgage-Backed Securities:				
FHLMC Certificates	—	—	—	—
FNMA Certificates	1,035	—	(33)	1,002
GNMA Certificates	2,982	44	—	3,026
	<u>\$ 28,929</u>	<u>\$ 44</u>	<u>\$ (551)</u>	<u>\$ 28,422</u>

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

## Note 3. Available-for-Sale Securities (Continued)

	December 31, 2017			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government and Federal Agencies	\$ 24,911	\$ —	\$ (359)	\$ 24,552
Mortgage-Backed Securities:				
FHLMC Certificates	—	—	—	—
FNMA Certificates	1,118	—	(15)	1,103
GNMA Certificates	3,205	38	(1)	3,242
	<u>\$ 29,234</u>	<u>\$ 38</u>	<u>\$ (375)</u>	<u>\$ 28,897</u>

There were no investments classified as held to maturity as of March 31, 2018 and December 31, 2017. There were no sales in the three months ended March 31, 2018 and 2017.

The following tables present the Company's securities' gross unrealized losses and fair values, aggregated by the length of time the individual securities have been in a continuous unrealized loss position, at March 31, 2018 and at December 31, 2017:

	March 31, 2018 (Unaudited)					
	Securities With Gross Unrealized Losses					
	Less Than 12 Months		12 Months or More		Total Fair Value	Total Unrealized Loss
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss		
U.S. Government and Federal Agencies	\$ —	\$ —	\$ 24,394	\$ (518)	\$ 24,394	\$ (518)
Mortgage-Backed						
FHLMC Certificates	—	—	—	—	—	—
FNMA Certificates	1,002	(33)	—	—	1,002	(33)
GNMA Certificates	—	—	—	—	—	—
	<u>\$ 1,002</u>	<u>\$ (33)</u>	<u>\$ 24,394</u>	<u>\$ (518)</u>	<u>\$ 25,396</u>	<u>\$ (551)</u>
	December 31, 2017					
	Securities With Gross Unrealized Losses					
	Less Than 12 Months		12 Months or More		Total Fair Value	Total Unrealized Loss
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss		
U.S. Government and Federal Agencies	\$ —	\$ —	\$ 24,552	\$ (359)	\$ 24,552	\$ (359)
Mortgage-Backed						
FHLMC Certificates	—	—	—	—	—	—
FNMA Certificates	1,094	(15)	—	—	1,094	(15)
GNMA Certificates	1,205	(1)	—	—	1,205	(1)
	<u>\$ 2,299</u>	<u>\$ (16)</u>	<u>\$ 24,552</u>	<u>\$ (359)</u>	<u>\$ 26,851</u>	<u>\$ (375)</u>

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 3. Available-for-Sale Securities (Continued)**

The Company's investment portfolio had 33 investment securities at March 31, 2018 and 33 investment securities at December 31, 2017. At March 31, 2018 and December 31, 2017, the Company had 14 securities at both periods, with a gross unrealized loss position. Management reviewed the financial condition of the entities underlying the securities at both March 31, 2018 and December 31, 2017 and determined that they are not other than temporary because the unrealized losses in those securities relate to market interest rate changes. The Company has the ability to hold them and does not have the intent to sell these securities, and it is not more likely than not that the Company will be required to sell these securities, before recovery of the cost basis. In addition, management also considers the issuers of the securities to be financially sound and believes the Company will receive all contractual principal and interest related to these investments.

The following is a summary of maturities of securities at March 31, 2018 and December 31, 2017. Amounts are shown by contractual maturity. Because borrowers for mortgage-backed securities have the right to prepay obligations with or without prepayment penalties, these securities are not included within the maturity summary.

	March 31, 2018 Available-for-Sale (Unaudited)	
	Amortized	Fair
	Cost	Value
U.S. Government and Federal Agency Securities:		
Amounts maturing:		
After three months through one year	\$ 1,990	\$ 1,976
After one year through five years	22,922	22,418
	24,912	24,394
Mortgage-Backed Securities	4,016	4,028
<b>Total</b>	<b>\$ 28,928</b>	<b>\$ 28,422</b>

	December 31, 2017 Available-for-Sale	
	Amortized	Fair
	Cost	Value
U.S. Government and Federal Agency Securities:		
Amounts maturing:		
After three months through one year	\$ 1,990	\$ 1,977
After one year through five years	22,921	22,575
	24,911	24,552
Mortgage-Backed Securities	4,323	4,345
<b>Total</b>	<b>\$ 29,234</b>	<b>\$ 28,897</b>

There were no securities pledged at March 31, 2018 and December 31, 2017.

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 4. Loans Receivable and Allowance for Loan Losses**

Loans at March 31, 2018 and December 31, 2017 are summarized as follows:

	March 31, 2018 (Unaudited)	December 31, 2017
Mortgage loans:		
1-4 family residences		
Investor-Owned	\$ 290,509	\$ 287,158
Owner-Occupied	96,943	100,854
Multifamily residences	204,474	188,550
Nonresidential properties	158,525	151,193
Construction and land	67,971	67,240
Nonmortgage loans:		
Business loans	13,925	12,873
Consumer loans	975	886
	833,322	808,754
Net deferred loan origination costs	1,101	1,020
Allowance for losses on loans	(11,409)	(11,071)
Loans, net	\$ 823,014	\$ 798,703

The Company's lending activities are conducted principally in New York City. The Company primarily grants loans secured by real estate to individuals and businesses. While collateral provides assurance as a secondary source of repayment, the Bank ordinarily requires the primary source of repayment to be based on the borrowers' ability to generate continuing cash flows. The Company has established credit policies applicable to each type of lending activity, in which it engages. The Company evaluates the creditworthiness of each customer and, in most cases, extends credit up to 75% of the market value of the collateral at the date of the credit extension, depending on the borrowers' creditworthiness and the type of collateral. The market value of collateral is monitored on an ongoing basis and additional collateral is obtained when warranted. Real estate is the primary form of collateral. Other important forms of collateral are time deposits and marketable securities.

For disclosures related to the allowance for loan losses and credit quality, the Company does not have any disaggregated classes of loans below the segment level.

Credit-Quality Indicators: Internally assigned risk ratings are used as credit-quality indicators, which are reviewed by management on a quarterly basis.

The objectives of the Company's risk-rating system are to provide the Board of Directors and senior management with an objective assessment of the overall quality of the loan portfolio, to promptly and accurately identify loans with well-defined credit weaknesses so that timely action can be taken to minimize credit loss, to identify relevant trends affecting the collectability of the loan portfolio, to isolate potential problem areas and to provide essential information for determining the adequacy of the allowance for loan losses.

Below are the definitions of the internally assigned risk ratings:

- **Strong Pass** – Loans to new or existing borrowers collateralized at least 90 percent by an unimpaired deposit account at the Company.
- **Good Pass** – A loan to a new or existing borrower in a well-established enterprise in excellent financial condition with strong liquidity and a history of consistently high level of earnings, cash flow and debt service capacity.
- **Satisfactory Pass** – Loan to a new or existing borrower of average strength with acceptable financial condition, satisfactory record of earnings and sufficient historical and projected cash flow to service the debt.

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 4. Loans Receivable and Allowance for Loan Losses (Continued)**

- **Performance Pass** – Existing loans that evidence strong payment history but document less than average strength, financial condition, record of earnings, or projected cash flows with which to service debt.
- **Special Mention** – Loans in this category are currently protected but show one or more potential weakness and risks which may inadequately protect collectability or borrower's ability to meet repayment terms at some future date if the weakness is not checked or corrected.
- **Substandard** – Loans that are inadequately protected by the repayment capacity of the borrower or the current sound net worth of the collateral pledged, if any. Loans in this category have well defined weaknesses and risks that jeopardize the repayment. They are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected.
- **Doubtful** – Loans that have all the weaknesses of loans classified as "Substandard" with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, highly questionable and improbable.

Loans within the top four categories above are considered pass rated, as commonly defined. Risk ratings are assigned as necessary to differentiate risk within the portfolio. Risk ratings are reviewed on an ongoing basis and revised to reflect changes in the borrowers' financial condition and outlook, debt service coverage capability, repayment performance, collateral value and coverage as well as other considerations.

The following tables present credit risk ratings by loan segment as of March 31, 2018 and December 31, 2017:

	March 31, 2018 (Unaudited)						
	Mortgage Loans				Nonmortgage Loans		Total Loans
	1-4 Family	Multifamily	Nonresidential	Construction and Land	Business	Consumer	
<b>Risk Rating:</b>							
Pass	\$ 371,387	\$ 204,474	\$ 156,338	\$ 60,623	\$ 13,894	\$ 975	\$ 807,691
Special mention	4,626	—	—	650	—	—	5,276
Substandard	11,439	—	2,187	6,698	31	—	20,355
Doubtful	—	—	—	—	—	—	—
<b>Total</b>	<u>\$ 387,452</u>	<u>\$ 204,474</u>	<u>\$ 158,525</u>	<u>\$ 67,971</u>	<u>\$ 13,925</u>	<u>\$ 975</u>	<u>\$ 833,322</u>
	December 31, 2017						
	Mortgage Loans				Nonmortgage Loans		Total Loans
	1-4 Family	Multifamily	Nonresidential	Construction and Land	Business	Consumer	
<b>Risk Rating:</b>							
Pass	\$ 370,629	\$ 188,030	\$ 148,253	\$ 59,914	\$ 12,726	\$ 886	\$ 780,438
Special mention	4,667	—	—	650	—	—	5,317
Substandard	12,716	520	2,940	6,676	147	—	22,999
Doubtful	—	—	—	—	—	—	—
<b>Total</b>	<u>\$ 388,012</u>	<u>\$ 188,550</u>	<u>\$ 151,193</u>	<u>\$ 67,240</u>	<u>\$ 12,873</u>	<u>\$ 886</u>	<u>\$ 808,754</u>

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 4. Loans Receivable and Allowance for Loan Losses (Continued)**

An aging analysis of loans, as of March 31, 2018 and December 31, 2017, is as follows:

	March 31, 2018						
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total	Nonaccrual Loans	Over 90 Days Accruing
<b>Mortgages:</b>							
1-4 Family							
Investor-Owned	\$ 288,357	\$ 2,152	\$ —	\$ —	\$ 290,509	\$ 1,331	\$ —
Owner-Occupied	91,932	2,413	—	2,598	96,943	4,934	—
Multifamily	201,612	2,862	—	—	204,474	—	—
Nonresidential properties	154,944	1,957	—	1,624	158,525	1,898	—
Construction and land	67,971	—	—	—	67,971	1,097	—
<b>Nonmortgage Loans:</b>							
Business	13,895	—	—	30	13,925	30	—
Consumer	975	—	—	—	975	—	—
<b>Total</b>	<b>\$ 819,686</b>	<b>\$ 9,384</b>	<b>\$ —</b>	<b>\$ 4,252</b>	<b>\$ 833,322</b>	<b>\$ 9,290</b>	<b>\$ —</b>
	December 31, 2017						
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total	Nonaccrual Loans	Over 90 Days Accruing
<b>Mortgages:</b>							
1-4 Family							
Investor-Owned	\$ 285,485	\$ 1,201	\$ —	\$ 472	\$ 287,158	\$ 2,178	\$ 7
Owner-Occupied	96,878	585	—	3,391	100,854	5,317	—
Multifamily	188,504	46	—	—	188,550	521	—
Nonresidential properties	149,300	11	—	1,882	151,193	2,170	—
Construction and land	67,240	—	—	—	67,240	1,075	—
<b>Nonmortgage Loans:</b>							
Business	12,583	239	—	51	12,873	147	—
Consumer	886	—	—	—	886	—	—
<b>Total</b>	<b>\$ 800,876</b>	<b>\$ 2,082</b>	<b>\$ —</b>	<b>\$ 5,796</b>	<b>\$ 808,754</b>	<b>\$ 11,408</b>	<b>\$ 7</b>

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 4. Loans Receivable and Allowance for Loan Losses (Continued)**

The following schedules detail the composition of the allowance for loan losses and the related recorded investment in loans as of March 31, 2018, 2017 and December 31, 2017:

	For the Three Months Ended March 31, 2018								Total
	(Unaudited)								
	Mortgage Loans					Nonmortgage Loans			
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	Unallocated	For the Period
Allowances for loan losses:									
Balance, beginning of period	\$ 3,716	\$ 1,402	\$ 3,109	\$ 1,424	\$ 1,205	\$ 209	\$ 6	\$ —	\$ 11,071
Provision charged to expense	(27)	(205)	276	90	7	(53)	6	—	94
Losses charged-off	—	—	—	—	—	—	(5)	—	(5)
Recoveries	—	173	—	3	—	72	1	—	249
Balance, end of period	<u>\$ 3,689</u>	<u>\$ 1,370</u>	<u>\$ 3,385</u>	<u>\$ 1,517</u>	<u>\$ 1,212</u>	<u>\$ 228</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ 11,409</u>
Ending balance: individually evaluated for impairment	\$ 424	\$ 364	\$ —	\$ 37	\$ —	\$ 8	\$ —	\$ —	\$ 833
Ending balance: collectively evaluated for impairment	3,265	1,006	3,385	1,480	1,212	220	8	—	10,576
Unallocated	—	—	—	—	—	—	—	—	—
Total	<u>\$ 3,689</u>	<u>\$ 1,370</u>	<u>\$ 3,385</u>	<u>\$ 1,517</u>	<u>\$ 1,212</u>	<u>\$ 228</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ 11,409</u>
Loans:									
Ending balance: individually evaluated for impairment	\$ 7,069	\$ 9,357	\$ —	\$ 3,366	\$ 1,097	\$ 485	\$ —	\$ —	\$ 21,374
Ending balance: collectively evaluated for impairment	283,440	87,586	204,474	155,159	66,874	13,440	975	—	811,948
Total	<u>\$ 290,509</u>	<u>\$ 96,943</u>	<u>\$ 204,474</u>	<u>\$ 158,525</u>	<u>\$ 67,971</u>	<u>\$ 13,925</u>	<u>\$ 975</u>	<u>\$ —</u>	<u>\$ 833,322</u>

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

## Note 4. Loans Receivable and Allowance for Loan Losses (Continued)

	For the Three Months Ended March 31, 2017								Total
	(Unaudited)								
	Mortgage Loans				Nonmortgage Loans				
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	Unallocated	For the Period
Allowances for loan losses:									
Balance, beginning of period	\$ 3,147	\$ 1,804	\$ 2,705	\$ 1,320	\$ 615	\$ 597	\$ 17	\$ —	\$ 10,205
Provision charged to expense	28	(75)	94	246	57	(585)	(9)	296	52
Losses charged-off	—	—	—	—	—	(10)	—	—	(10)
Recoveries	6	—	1	2	—	113	1	—	123
Balance, end of period	<u>\$ 3,181</u>	<u>\$ 1,729</u>	<u>\$ 2,800</u>	<u>\$ 1,568</u>	<u>\$ 672</u>	<u>\$ 115</u>	<u>\$ 9</u>	<u>\$ 296</u>	<u>\$ 10,370</u>
Ending balance: individually evaluated for impairment	\$ 373	\$ 704	\$ —	\$ 260	\$ —	\$ —	\$ —	\$ —	\$ 1,337
Ending balance: collectively evaluated for impairment	2,808	1,025	2,800	1,308	672	115	9	—	8,737
Unallocated	—	—	—	—	—	—	—	296	296
Total	<u>\$ 3,181</u>	<u>\$ 1,729</u>	<u>\$ 2,800</u>	<u>\$ 1,568</u>	<u>\$ 672</u>	<u>\$ 115</u>	<u>\$ 9</u>	<u>\$ 296</u>	<u>\$ 10,370</u>
Loans:									
Ending balance: individually evaluated for impairment	\$ 8,173	\$ 9,591	\$ —	\$ 6,421	\$ 1,142	\$ 546	\$ 12	\$ —	\$ 25,885
Ending balance: collectively evaluated for impairment	229,731	86,494	161,833	134,080	36,468	11,888	784	—	661,278
Total	<u>\$ 237,904</u>	<u>\$ 96,085</u>	<u>\$ 161,833</u>	<u>\$ 140,501</u>	<u>\$ 37,610</u>	<u>\$ 12,434</u>	<u>\$ 796</u>	<u>\$ —</u>	<u>\$ 687,163</u>



## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

## Note 4. Loans Receivable and Allowance for Loan Losses (Continued)

	For the Year Ended December 31, 2017								Total
	Mortgage Loans					Nonmortgage Loans			
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	Unallocated	
Allowances for loan losses:									
Balance, beginning of year	\$ 3,147	\$ 1,804	\$ 2,705	\$ 1,320	\$ 615	\$ 597	\$ 17	\$ —	\$ 10,205
Provision charged to expense	544	(578)	402	95	588	676	(11)	—	1,716
Losses charged-off	—	—	—	—	—	(1,423)	(6)	—	(1,429)
Recoveries	25	176	2	9	2	359	6	—	579
Balance, end of year	<u>\$ 3,716</u>	<u>\$ 1,402</u>	<u>\$ 3,109</u>	<u>\$ 1,424</u>	<u>\$ 1,205</u>	<u>\$ 209</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 11,071</u>
Ending balance: individually evaluated for impairment	\$ 506	\$ 375	\$ —	\$ 39	\$ —	\$ 2	\$ —	\$ —	\$ 922
Ending balance: collectively evaluated for impairment	3,210	1,027	3,109	1,385	1,205	207	6	—	10,149
Unallocated	—	—	—	—	—	—	—	—	—
Total	<u>\$ 3,716</u>	<u>\$ 1,402</u>	<u>\$ 3,109</u>	<u>\$ 1,424</u>	<u>\$ 1,205</u>	<u>\$ 209</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 11,071</u>
Loans:									
Ending balance: individually evaluated for impairment	\$ 8,738	\$ 10,074	\$ 520	\$ 4,128	\$ 1,075	\$ 625	\$ —	\$ —	\$ 25,160
Ending balance: collectively evaluated for impairment	278,420	90,780	188,030	147,065	66,165	12,248	886	—	783,594
Total	<u>\$ 287,158</u>	<u>\$ 100,854</u>	<u>\$ 188,550</u>	<u>\$ 151,193</u>	<u>\$ 67,240</u>	<u>\$ 12,873</u>	<u>\$ 886</u>	<u>\$ —</u>	<u>\$ 808,754</u>

Loans are considered impaired when current information and events indicate all amounts due may not be collectable according to the contractual terms of the related loan agreements. Impaired loans, including TDR's, are identified by applying normal loan review procedures in accordance with the Allowance for Loan Loss methodology. Management periodically assesses loans to determine whether impairment exists. Any loan that is, or will potentially be, no longer performing in accordance with the terms of the original loan contract is evaluated to determine impairment.

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 4. Loans Receivable and Allowance for Loan Losses (Continued)**

The following information relates to impaired loans as of and for the three months ended March 31, 2018 and 2017 and for the year ended December 31, 2017:

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized on Cash Basis
<b>For the Three Months Ended March 31, 2018</b>							
<b>(Unaudited)</b>							
Mortgages:							
1-4 Family	\$ 17,720	\$ 9,277	\$ 7,149	\$ 16,426	\$ 788	\$ 17,772	\$ 182
Multifamily	—	—	—	—	—	104	—
Nonresidential properties	3,979	2,391	975	3,366	37	4,596	38
Construction and land	1,284	1,097	—	1,097	—	1,079	—
Nonmortgage Loans:							
Business	528	467	18	485	8	542	5
Consumer	—	—	—	—	—	—	—
Total	<u>\$ 23,511</u>	<u>\$ 13,232</u>	<u>\$ 8,142</u>	<u>\$ 21,374</u>	<u>\$ 833</u>	<u>\$ 24,093</u>	<u>\$ 225</u>
<b>For the Three Months Ended March 31, 2017</b>							
<b>(Unaudited)</b>							
Mortgages:							
1-4 Family	\$ 19,257	\$ 7,477	\$ 10,287	\$ 17,764	\$ 1,077	\$ 17,781	\$ 216
Multifamily	—	—	—	—	—	—	—
Nonresidential properties	7,057	3,876	2,545	6,421	260	6,427	69
Construction and land	1,254	1,142	—	1,142	—	1,132	—
Nonmortgage Loans:							
Business	600	558	—	558	—	558	—
Consumer	—	—	—	—	—	—	—
Total	<u>\$ 28,168</u>	<u>\$ 13,053</u>	<u>\$ 12,832</u>	<u>\$ 25,885</u>	<u>\$ 1,337</u>	<u>\$ 25,898</u>	<u>\$ 285</u>
<b>December 31, 2017</b>							
<b>(Unaudited)</b>							
Mortgages:							
1-4 Family	\$ 20,036	\$ 10,651	\$ 8,161	\$ 18,812	\$ 506	\$ 18,512	\$ 890
Multifamily	533	520	—	520	375	166	—
Nonresidential properties	4,729	3,633	495	4,128	—	5,231	166
Construction and land	1,233	1,075	—	1,075	39	1,042	—
Nonmortgage Loans:							
Business	667	529	96	625	2	594	24
Consumer	—	—	—	—	—	—	—
Total	<u>\$ 27,198</u>	<u>\$ 16,408</u>	<u>\$ 8,752</u>	<u>\$ 25,160</u>	<u>\$ 922</u>	<u>\$ 25,545</u>	<u>\$ 1,080</u>

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 4. Loans Receivable and Allowance for Loan Losses (Continued)**

The loan portfolio also includes certain loans that have been modified in a TDR. Under applicable standards, TDRs occur when a creditor, for economic or legal reasons related to a debtor's financial condition, grants a concession to the debtor that it would not otherwise consider, unless it results in a delay in payment that is insignificant. These concessions could include a reduction of interest rate on the loan, payment and maturity extensions, forbearance, or other actions intended to maximize collections. When a loan is modified in a TDR, management evaluates for any possible impairment using either the discounted cash flows method, where the value of the modified loan is based on the present value of expected cash flows, discounted at the contractual interest rate of the original loan agreement, or by using the fair value of the collateral less selling costs if repayment under the modified terms becomes doubtful. If management determines that the value of the modified loan in a TDR is less than the recorded investment in the loan, impairment is recognized through a specific allowance estimate or charge-off to the allowance for loan losses.

As of and for the three months ended March 31, 2018, there were no loans restructured as a TDR. As of and for the year ended December 31, 2017, there was one loan restructured as a TDR.

	Loans Restructured During Three Months Ended March 31, 2018 (Unaudited)			All TDRs with a payment default within 12 months following the modification (Unaudited)	
	Number of Loans	Pre- Modification Recorded Balance	Post- Modification Recorded Balance	Number of Loans	Balance of Loans at the Time of Default
Mortgages:					
1-4 Family	—	\$ —	\$ —	1	\$ 175
Total	—	\$ —	\$ —	1	\$ 175
Combination of rate, maturity, other	—	\$ —	\$ —	1	\$ 175
Total	—	\$ —	\$ —	1	\$ 175

	Loans Restructured During Year Ended December 31, 2017			All TDRs with a payment default within 12 months following the modification	
	Number of Loans	Pre- Modification Recorded Balance	Post- Modification Recorded Balance	Number of Loans	Balance of Loans at the Time of Default
Mortgages:					
1-4 Family	1	\$ 176	\$ 176	—	\$ —
Total	1	\$ 176	\$ 176	—	\$ —
Combination of rate, maturity, other	1	\$ 176	\$ 176	—	\$ —
Total	1	\$ 176	\$ 176	—	\$ —

At March 31, 2018, there were 47 troubled debt restructured loans, included in impaired loans, of \$19,355. At December 31, 2017, there were 49 troubled debt restructured loans, included in impaired loans, of \$18,371. There were no commitments to lend additional funds to borrowers whose loans have been modified in a troubled debt restructuring. The financial impact from the concessions made represents specific impairment reserves on these loans which aggregated \$825 and \$921 at March 31, 2018 and December 31, 2017, respectively.

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 5. Premises and Equipment**

A summary of premises and equipment at March 31, 2018 and December 31, 2017 is as follows:

	March 31, 2018 (Unaudited)	December 31, 2017
Land	\$ 3,979	\$ 3,979
Buildings and improvements	15,972	15,972
Leasehold improvements	19,677	20,973
Furniture, fixtures and equipment	7,100	4,875
	46,728	45,799
Less accumulated depreciation and amortization	(19,044)	(18,627)
	<u>\$ 27,684</u>	<u>\$ 27,172</u>

Depreciation and amortization expense amounted to \$417 and \$404 for the three months ended March 31, 2018 and 2017, respectively, and are included in occupancy expense in the accompanying consolidated statements of income.

**Note 6. Deposits**

Deposits at March 31, 2018 and December 31, 2017 are summarized as follows:

	March 31, 2018 (Unaudited)	December 31, 2017
Demand	\$ 110,030	\$ 103,001
Interest-bearing deposits:		
NOW/IOLA accounts	27,630	27,758
Money market accounts	51,958	46,497
Savings accounts	125,729	126,668
<b>Total savings, NOW and money market</b>	<u>205,317</u>	<u>200,923</u>
Certificates of deposit of \$250K or more	80,150	80,300
All other certificates of deposit	356,770	329,761
<b>Total certificates of deposit</b>	<u>436,920</u>	<u>410,061</u>
Total interest-bearing deposits	642,237	610,984
<b>Total deposits</b>	<u>\$ 752,267</u>	<u>\$ 713,985</u>

At March 31, 2018 scheduled maturities of certificates of deposit were as follows:

<u>March 31,</u>		
2019	\$	183,469
2020		80,709
2021		76,938
2022		59,123
2023		36,681
	<u>\$</u>	<u>436,920</u>

Overdrawn deposit accounts that have been reclassified to loans amounted to \$125 and \$174 as of March 31, 2018 and December 31, 2017, respectively.

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 7. Borrowings**

**FHLB Advances:** The Bank is a member of the Federal Home Loan Bank of New York. At March 31, 2018, the Bank had the ability to borrow from the FHLB based on a certain percentage of the value of the Bank's qualified collateral, as defined in the FHLB Statement of Credit Policy, at the time of the borrowing. In accordance with an agreement with the FHLB, the qualified collateral must be free and clear of liens, pledges and encumbrances.

The Bank had \$20,000 and \$16,400 of outstanding advances from the FHLB on term basis and an overnight line of credit basis at March 31, 2018 and December 31, 2017, respectively. The Bank also had a guarantee from the FHLB through a standby letter of credit of \$6,614 and \$6,614 at March 31, 2018 and December 31, 2017, respectively. Additionally, the Bank had an unsecured fed funds line in the amount of \$22,000 with a correspondent bank at March 31, 2018.

Borrowed funds at March 31, 2018 and December 31, 2017 consist of the following and are summarized by maturity and call date below:

	March 31, 2018 (Unaudited)			December 31, 2017		
	Scheduled Maturity	Redeemable at Call Date	Weighted Average Rate	Scheduled Maturity	Redeemable at Call Date	Weighted Average Rate
Correspondent Bank Overnight line of credit advance	\$ —	\$ —	—%	\$ 20,000	\$ 20,000	1.64%
<b>FHLB Term advances ending March 31:</b>						
2020	\$ 1,400	\$ 1,400	2.11	\$ 1,400	1,400	2.11
2021	3,000	3,000	1.84	3,000	3,000	1.84
2022	5,000	5,000	1.97	5,000	5,000	1.97
2023	10,600	10,600	2.37	7,000	7,000	2.12
	<u>\$ 20,000</u>	<u>\$ 20,000</u>	2.17%	<u>\$ 36,400</u>	<u>\$ 36,400</u>	1.81%

Interest expense on advances totaled \$98 and \$29 for the three months ended March 31, 2018 and 2017, respectively.

As of March 31, 2018 and December 31, 2017, the Bank has eligible collateral of approximately \$73,540 and \$66,254 in mortgage loans available to secure advances from the FHLB.

**Securities Sold under Agreement to Repurchase:** At March 31, 2018 and December 31, 2017, the Bank had the ability to borrow up to \$25,000 under repurchase agreements with three brokers. The Bank had no securities sold under repurchase agreements with brokers as of March 31, 2018 and December 31, 2017. Interest expense on securities sold under repurchase agreements totaled \$0 and \$0 for the three months ended March 31, 2018 and 2017, respectively.

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 8. Income Taxes**

The provision (benefit) for income taxes for the three months ended March 31, 2018 and 2017 consists of the following:

	<b>For the Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(Unaudited)</b>	
<b>Federal:</b>		
Current	\$ 85	\$ 253
Deferred	130	110
	<u>215</u>	<u>363</u>
<b>State and local:</b>		
Current	73	49
Deferred	(104)	(199)
	<u>(31)</u>	<u>(150)</u>
Changes in valuation allowance	84	132
Provision for income taxes	<u>\$ 268</u>	<u>\$ 345</u>

Total income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 21% and 34% for the three months ended March 31, 2018 and 2017, respectively, to income before income taxes as a result of the following:

	<b>For the Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(Unaudited)</b>	
Income tax, at federal rate	\$ 254	\$ 309
State and local tax, net of federal taxes	(25)	(424)
Valuation allowance, net of the federal benefit	84	460
Other	(45)	—
	<u>\$ 268</u>	<u>\$ 345</u>

On December 22, 2017, the U.S. Government signed into law the “Tax Cuts and Jobs Act” (the “Tax Act”) which, starting in 2018, reduced the Company’s corporate income tax rate from 34% to 21%, but eliminates or increases certain permanent differences.

On December 22, 2017, the U.S. Securities and Exchange Commission (“SEC”) released Staff Accounting Bulletin No. 118 (“SAB 118”) to address any uncertainty or diversity of views in practice in accounting for the income tax effects of the Tax Act in situations where a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete this accounting in the reporting period that includes the enactment date. SAB 118 allows for a measurement period, not to extend beyond one year from the Tax Act’s enactment date, to complete the necessary accounting.

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 8. Income Taxes (Continued)**

Our annualized estimated effective tax rate (AETR) for the period ended March 31, 2018 reflects our assumption that pre-tax income for the period is proportional to annual pre-tax income. Our AETR may change in future periods as we revise our estimate of annual pre-tax income.

Management maintains a valuation allowance against its net New York State and New York City deferred tax assets as it is more likely than not that these deferred tax assets will impact the tax liability in future years. The valuation allowance increased by \$84 from December 31, 2017 to March 31, 2018.

Management has determined that it is not required to establish a valuation allowance against any other deferred tax assets since it is more likely than not that the deferred tax assets will be fully utilized in future periods. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax liabilities, the level of historical taxable income, and the projected future taxable income over the periods that the temporary differences comprising the deferred tax assets will be deductible.

At March 31, 2018 and December 31, 2017, there are no unrecognized tax benefits recorded. It is not expected the total amount of unrecognized tax benefits will significantly increase in the next twelve months. Interest and penalties are recognized on unrecognized tax benefits as a component of income tax expense.

The Company is subject to U.S. federal income tax, New York State income tax, New Jersey income tax, and New York City income tax. The Company is no longer subject to examination by taxing authorities for years before 2014.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2018 and December 31, 2017 are presented below:

	At March 31, 2018 (Unaudited)	At December 31, 2017
Deferred tax assets:		
Allowance for losses on loans	\$ 3,534	\$ 3,444
Pension obligations	2,409	2,402
Interest on nonaccrual loans	206	415
Unrealized loss on available-for-sale securities	108	72
Amortization of intangible assets	115	120
Deferred rent payable	181	194
Net operating losses	2,587	2,444
Charitable contribution carryforward	1,785	1,840
Other	149	162
<b>Total gross deferred tax assets</b>	<b>11,074</b>	<b>11,093</b>
Deferred tax liabilities:		
Cumulative contribution in excess of net periodic benefit costs, net	3,117	3,134
Depreciation and amortization of premises and equipment	598	601
Deferred loan fees	341	317
Other	19	18
<b>Total gross deferred tax liabilities</b>	<b>4,075</b>	<b>4,070</b>
<b>Valuation allowance</b>	<b>3,198</b>	<b>3,114</b>
<b>Net deferred tax assets</b>	<b>\$ 3,801</b>	<b>\$ 3,909</b>

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 9. Compensation and Benefit Plans**Defined Benefit Plan:

Effective January 1, 2007, the noncontributory defined benefit pension plan (the "Old Pension Plan") of the Company was frozen and replaced with a qualified defined contribution plan (the "401(k) Plan") as noted in more detail below. The Old Pension Plan covered substantially all employees. Employees were eligible to participate after one year of service. Normal retirement age was 65, with an early retirement provided for at age 55. The Old Pension Plan was effectively frozen on May 31, 2007 (the curtailment date) and this resulted in an actuarial reassessment of the Old Pension Plan's future estimated obligations. All participants that are presently vested with the Old Pension Plan will remain in the Old Pension Plan and will receive the full accrued benefit, as defined, upon retirement, in accordance with the plan document.

The following table sets forth the Old Pension Plan's funded status and amounts recognized in the consolidated statements of financial condition as of March 31, 2018 and December 31, 2017 using a measurement date as of March 31, 2018 and December 31, 2017, respectively:

	<u>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	(Unaudited)	
Projected benefit obligation	\$ (15,834)	\$ (15,883)
Fair value of plan assets	14,638	14,732
Funded status	<u>\$ (1,196)</u>	<u>\$ (1,151)</u>
Accumulated benefit obligation	<u>\$ (15,834)</u>	<u>\$ (15,883)</u>

	<u>March 31, 2018</u>	<u>December 31,</u> <u>2017</u>
	(Unaudited)	
<u>Changes in benefit obligation:</u>		
Beginning of period	\$ 15,883	\$ 14,142
Service cost	10	39
Interest cost	135	581
2017 interest rate change	—	1,338
2017 mortality change	—	1,906
(Gain)/ Loss	3	(1,345)
Administrative cost	(10)	(39)
Benefits paid	(187)	(739)
End of period	<u>\$ 15,834</u>	<u>\$ 15,883</u>

	<u>March 31, 2018</u>	<u>December 31,</u> <u>2017</u>
	(Unaudited)	
<u>Changes in plan assets:</u>		
Fair value of plan assets, beginning of period	\$ 14,732	\$ 15,038
Actual return on plan assets	103	472
Employer contributions	—	—
Plan participant contributions	—	—
Benefits paid	(187)	(739)
Administrative expenses paid	(10)	(39)
Fair value of plan assets, end of period	<u>\$ 14,638</u>	<u>\$ 14,732</u>



## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 9. Compensation and Benefit Plans (Continued)**

Pretax amounts recognized in accumulated other comprehensive loss, which will be amortized into net periodic benefit cost over the coming years, consisted of the following components at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
	(Unaudited)	
Net loss	\$ (11,258)	\$ (11,224)

The components of net periodic benefit cost are as follows for the three months ended March 31, 2018 and 2017:

	For the Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
Service cost	\$ 10	\$ 10
Interest cost	135	145
Expected return on plan assets	(215)	(184)
Amortization of prior service cost	6	6
Amortization of (gain)/loss	75	64
Net periodic benefit cost	\$ 11	\$ 41

Weighted-average assumptions used to determine the net benefit obligations consisted of the following as of March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
	(Unaudited)	
Discount rate	3.50%	3.50%
Rate of compensation increase	0.00%	0.00%

Weighted-average assumptions used to determine the net benefit cost consisted of the following for the three months ended March 31, 2018 and 2017:

	March 31, 2018	March 31, 2017
	(Unaudited)	
Discount rate	3.50%	4.25%
Rate of compensation increase	0.00%	0.00%
Expected long-term rate of return on assets	6.00%	6.00%

The expected rate of return on plan assets is estimated based on the plan's historical performance of return on assets.

The investment policy for plan assets is to manage the portfolio to preserve principal and liquidity while maximizing the return on the plan's investment portfolio through the full investment of available funds. Plan assets are currently maintained in a guaranteed deposit account with Prudential Retirement Insurance and Annuity Company, earning interest at rates that are determined at the beginning of each year.

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 9. Compensation and Benefit Plans (Continued)**

Pension assets consist solely of funds on deposit in a guaranteed deposit account. The fair value of the pension plan assets at March 31, 2018 and December 31, 2017 was \$14,638 and \$14,696, respectively.

The guaranteed deposit account is valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. Such fair value measurement is considered a Level 3 measurement.

Employer contributions and benefit payments for the three months ended March 31, 2018 and 2017 are as follows:

	March 31, 2018	March 31, 2017
	(Unaudited)	
Employer contributions	\$ —	\$ —
Benefits paid	\$ 187	\$ 184

Employee benefit payments expected to be paid in the future are as follows:

<u>As of March 31, 2018</u>	
2018	\$ 548
2019	736
2020	714
2021	695
2022	700
Thereafter	3,307
	<u>\$ 6,700</u>

401(k) Plan:

On January 1, 2007, a qualified defined contribution retirement plan under Section 401(k) of the Internal Revenue Code was adopted. The 401(k) Plan also qualifies under the Internal Revenue Service safe harbor provisions, as defined. Employees are eligible to participate in the 401(k) Plan after completing one year of service. The 401(k) Plan provides for elective employee/participant deferrals of income. Discretionary matching, profit-sharing, and safe harbor contributions, not to exceed 4% of employee compensation and profit-sharing contributions may be provided. Contributions for the three months ended March 31, 2018 and 2017, if any, were not material to the consolidated financial statements.

Employee Stock Ownership Plan:

In connection with the reorganization, the Company established an Employee Stock Ownership Plan (ESOP) for the exclusive benefit of eligible employees. The ESOP borrowed \$7,238 from the Company sufficient to purchase 723,751 shares (approximately 3.92% of the common stock sold in the stock offering). The loan is secured by the shares purchased and will be repaid by the ESOP with funds from contributions made by the Bank and dividends received by the ESOP. Contributions will be applied to repay interest on the loan first, and then the remainder will be applied to principal. The loan is expected to be repaid over a period of 15 years. Shares purchased with the loan proceeds are held by the trustee in a suspense account for allocation among participants as the loan is repaid.

Contributions to the ESOP and shares released from the suspense account are allocated among participants in proportion to their compensation, relative to total compensation of all active participants, subject to applicable regulations.

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 9. Compensation and Benefit Plans (Continued)**

Contributions to the ESOP are to be sufficient to pay principal and interest currently due under the loan agreement. As shares are committed to be released from collateral, compensation expense equal to the average market price of the shares for the respective period are recognized, and the shares become outstanding for earnings per share computations.

A summary of the ESOP shares is as follows:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Shares committed-to-be released	12,063	48,250
Shares to be allocated to participants	48,250	—
Unallocated shares	663,438	675,501
Total	<u>723,751</u>	<u>723,751</u>
Fair value of unearned shares	<u>\$ 9,719</u>	<u>\$ 10,254</u>

At March 31, 2018 and December 31, 2017, we had \$6,712 outstanding of funds borrowed for the ESOP. We recognized \$189 in compensation expense and \$47 in interest expense, for the three months ended March 31, 2018 and none for the three months ended March 31, 2017.

Supplemental Executive Retirement Plan:

The Company maintains a non-qualified supplemental executive retirement plan (“SERP”) for the benefit of one key executive. In the first quarter of 2018, we recognized \$12 in SERP expense.

**Note 10. Earnings Per Share**

Earnings per share data is not applicable for the period ended March 31, 2017 because the Company has not yet been formed and had no shares outstanding at a Company or Bank level.

The following table presents a reconciliation of the number of shares used in the calculation of basic and diluted earnings per common share:

	<b>For the Period January 1, 2018 through March 31, 2018</b>
Net income for the period January 1, 2018 to March 31, 2018	\$ 941
<b>Shares Outstanding for basic EPS:</b>	
Weighted average shares outstanding:	18,463,028
Less: Weighted average unallocated Employee Stock Ownership Plan (ESOP) shares:	<u>675,367</u>
Basic weighted shares outstanding	17,787,661
Basic earnings per share	\$ 0.05
<b>Dilutive potential common shares:</b>	
Diluted weighted average shares outstanding	<u>17,787,661</u>
Diluted earnings per share	\$ 0.05

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 11. Commitments, Contingencies and Credit Risk**

**Financial Instruments With Off-Balance-Sheet Risk:** In the normal course of business, financial instruments with off-balance-sheet risk may be used to meet the financing needs of customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized on the consolidated statements of financial condition. The contractual amounts of these instruments reflect the extent of involvement in particular classes of financial instruments.

The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless. The same credit policies are used in making commitments and contractual obligations as for on-balance-sheet instruments. Financial instruments whose contractual amounts represent credit risk at March 31, 2018 and December 31, 2017 are as follows:

	<u>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	<u>(Unaudited)</u>	
Commitments to grant mortgage loans	\$ 60,990	\$ 54,423
Unfunded commitments under lines of credit	38,280	33,641
Standby letters of credit	6,734	6,734
	<u>\$ 106,004</u>	<u>\$ 94,798</u>

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 11. Commitments, Contingencies and Credit Risk (Continued)**

**Commitments to Grant Mortgage Loans:** Commitments to grant mortgage loans are agreements to lend to a customer as long as all terms and conditions are met as established in the contract. Commitments generally have fixed expiration dates or other termination clauses, and may require payment of a fee by the borrower. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties. Material losses are not anticipated as a result of these transactions.

**Unfunded Commitments Under Lines of Credit:** Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extension of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and, ultimately, may not be drawn upon to the total extent to which the Company is committed.

**Standby Letters of Credit:** Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances deemed necessary.

**Concentration by Geographic Location:** Loans, commitments to extend credit and standby letters of credit have been granted to customers who are located primarily in New York City. Generally, such loans most often are secured by one-to-four family residences. The loans are expected to be repaid from the borrowers' cash flows.

**Lease Commitments:** At March 31, 2018, there are noncancelable operating leases for office space that expire on various dates through 2031. One such lease contains an escalation clause providing for increased rental based primarily on increases in real estate taxes. Net rental expenses under operating leases, included in occupancy expense, totaled \$405 and \$355 for the three months ended March 31, 2018 and 2017, respectively.

The projected minimum rental payments under the terms of the leases at March 31, 2018 are as follows:

	<u>March 31,</u> <u>(Unaudited)</u>
2018	\$ 859
2019	1,170
2020	1,204
2021	1,240
2022	1,145
Thereafter	7,785
	<u>\$ 13,403</u>

**Legal Matters:** The Company is involved in various legal proceedings which have arisen in the normal course of business. Management believes that resolution of these matters will not have a material effect on the Company's financial condition or results of operations.

Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

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**Note 12. Fair Value**

The following fair value hierarchy is used based on the lowest level of input significant to the fair value measurement. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

Cash and Cash Equivalents, Accrued Interest Receivable, Advance Payments by Borrowers for Taxes and Insurance, and Accrued Interest Payable: The carrying amount is a reasonable estimate of fair value. These assets and liabilities were not recorded at fair value on a recurring basis.

Available-for-Sale Securities: These financial instruments are recorded at fair value in the consolidated financial statements on a recurring basis. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted prices are not available, then fair values are estimated by using pricing models (e.g., matrix pricing) or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. Examples of such instruments include government agency bonds and mortgage-backed securities. Level 3 securities are securities for which significant unobservable inputs are utilized. There were no changes in valuation techniques used to measure similar assets during the period.

FHLB Stock: The carrying value of FHLB stock approximates fair value since the Bank can redeem such stock with FHLB at cost. As a member of the FHLB, we are required to purchase this stock, which we carry at cost and classify as restricted equity securities.

Loans: For variable rate loans, which reprice frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values, adjusted for credit losses inherent in the portfolios. The fair value of fixed rate loans is estimated by discounting the future cash flows using estimated market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for credit losses inherent in the portfolios. Impaired loans are valued using a present value discounted cash flow method, or the fair value of the collateral. Loans are not recorded at fair value on a recurring basis.

Loans Held for Sale: Loans held for sale are carried at the lower of cost or fair value. The fair value of loans held for sale is determined from actual bids from bona fide investors. These assets are classified as Level 2.

Other Real Estate Owned: Other real estate owned represents real estate acquired through foreclosure, and is recorded at fair value less estimated disposal costs on a nonrecurring basis. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the asset is classified as Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the asset is classified as Level 3.

Deposits: The fair values of demand deposits, savings, NOW and money market accounts equal their carrying amounts, which represent the amounts payable on demand at the reporting date. Fair values for fixed-term, fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on certificates of deposit to a schedule of aggregated expected monthly maturities on such deposits. Deposits are not recorded at fair value on a recurring basis.

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 12. Fair Value (Continued)**

**Advances From the Federal Home Loan Bank:** The fair value of the advances is estimated using a discounted cash flow calculation that applies current market-based FHLB interest rates for advances of similar maturity to a schedule of maturities of such advances. These borrowings are not recorded at fair value on a recurring basis.

**Off-Balance-Sheet Instruments:** Fair values for off-balance-sheet instruments (lending commitments and standby letters of credit) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. Off-balance-sheet instruments are not recorded at fair value on a recurring basis.

The following tables detail the assets that are carried at fair value and measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017, and indicate the level within the fair value hierarchy utilized to determine the fair value:

Description	Total	March 31, 2018 (Unaudited)		
		Level 1	Level 2	Level 3
<b>Available-for-Sale Securities:</b>				
U.S. government and federal agencies	\$ 24,394	\$ —	\$ 24,394	\$ —
<b>Mortgage-Backed Securities:</b>				
FNMA Certificates	1,002	—	1,002	—
GNMA Certificates	3,026	—	3,026	—
	<u>\$ 28,422</u>	<u>\$ —</u>	<u>\$ 28,422</u>	<u>\$ —</u>

  

Description	Total	December 31, 2017		
		Level 1	Level 2	Level 3
<b>Available-for-Sale Securities:</b>				
U.S. government and federal agencies	\$ 24,552	\$ —	\$ 24,552	\$ —
<b>Mortgage-Backed Securities:</b>				
FNMA Certificates	1,103	—	1,103	—
GNMA Certificates	3,242	—	3,242	—
	<u>\$ 28,897</u>	<u>\$ —</u>	<u>\$ 28,897</u>	<u>\$ —</u>

Our assessment and classification of an investment within a level can change over time based upon maturity or liquidity of the investment and would be reflected at the beginning of the quarter in which the change occurred.

The following tables detail the assets carried at fair value and measured at fair value on a nonrecurring basis as of March 31, 2018 and December 31, 2017 and indicate the fair value hierarchy utilized to determine the fair value:

	March 31, 2018 (Unaudited)			
	Total	Level 1	Level 2	Level 3
Impaired loans	\$ 21,374	\$ —	\$ —	\$ 21,374
Loans held for sale	\$ —	\$ —	\$ —	\$ —
Other real estate owned	\$ —	\$ —	\$ —	\$ —

  

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Impaired loans	\$ 25,160	\$ —	\$ —	\$ 25,160
Loans held for sale	\$ —	\$ —	\$ —	\$ —
Other real estate owned	\$ —	\$ —	\$ —	\$ —

**Notes to Unaudited Consolidated Financial Statements**

**As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)**

**(Dollars in thousands, unless otherwise stated)**

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**Note 12. Fair Value (Continued)**

Losses on assets carried at fair value on a nonrecurring basis were de minimis for the three months ended March 31, 2018 and 2017, respectively.

The fair value information about financial instruments are disclosed, whether or not recognized in the consolidated statements of financial condition, for which it is practicable to estimate that value. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The estimated fair value amounts for 2018 and 2017 have been measured as of their respective period-ends and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than amounts reported at each period.

The information presented should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company's assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other banks may not be meaningful.



## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 12. Fair Value (Continued)**

As of March 31, 2018 and December 31, 2017, the book balances and estimated fair values of the Company's financial instruments were as follows:

March 31, 2018 (Unaudited)	Carrying	Fair Value Measurements			Total
	Amount	Level 1	Level 2	Level 3	
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 58,979	\$ 58,979	\$ —	\$ —	\$ 58,979
Investment securities	28,422	—	28,422	—	28,422
Loans held for sale	—	—	—	—	—
Loans receivable, net	823,014	—	—	833,549	833,549
Accrued interest receivable	3,202	—	3,202	—	3,202
FHLB stock	1,673	1,673	—	—	1,673
Pension plan asset	14,641	—	—	14,638	14,638
<b>Financial liabilities:</b>					
<b>Deposits:</b>					
Demand deposits	110,030	110,030	—	—	110,030
Interest-bearing deposits	205,317	205,317	—	—	205,317
Certificates of deposit	436,920	—	439,921	—	439,921
Advance payments by borrowers for taxes and insurance	6,999	—	6,999	—	6,999
Advances from FHLB	20,000	20,000	—	—	20,000
Accrued interest payable	61	—	61	—	61
<b>December 31, 2017</b>					
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 59,724	\$ 59,724	\$ —	\$ —	\$ 59,724
Investment securities	28,897	—	28,897	—	28,897
Loans held for sale	—	—	—	—	—
Loans receivable, net	798,703	—	—	813,160	813,160
Accrued interest receivable	3,335	—	3,335	—	3,335
FHLB stock	1,511	1,511	—	—	1,511
Pension plan asset	14,735	—	—	14,696	14,696
<b>Financial liabilities:</b>					
<b>Deposits:</b>					
Demand deposits	103,001	103,001	—	—	103,001
Interest-bearing deposits	200,923	200,923	—	—	200,923
Certificates of deposit	410,061	—	414,902	—	414,902
Advance payments by borrowers for taxes and insurance	5,025	—	5,025	—	5,025
Advances from FHLB	36,400	36,400	—	—	36,400
Accrued interest payable	42	—	42	—	42

**Off-Balance-Sheet Instruments:** Loan commitments on which the committed interest rate is less than the current market rate are insignificant at March 31, 2018 and December 31, 2017.

**Pension Plan Asset:** The pension plan asset included above represents the guaranteed deposit account on the Old Pension Plan. The guaranteed deposit account is valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. Such fair value measurement is considered a Level 3 measurement.

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 13. Regulatory Capital Requirements**

The Company and the Bank are subject to various regulatory capital requirements administered by the Federal Reserve Board and the OCC, respectively. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's operations and financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation require the maintenance of minimum amounts and ratios (set forth in the table below) of total risk-based and Tier 1 capital to risk-weighted assets (as defined), common equity Tier 1 capital (as defined), and Tier 1 capital to adjusted total assets (as defined) adjusted total assets (as defined). Management believes that, as of March 31, 2018 and December 31, 2017, all applicable capital adequacy requirements have been met.

The below minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer is being phased in from 0% for 2015 to 2.5% by 2019. The applicable capital buffer was 12.5% at March 31, 2018 and 12.7% at December 31, 2017.

The most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and the Bank must maintain minimum total risk-based, common equity risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There were no conditions or events since then that management believes have changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios as of March 31, 2018 and December 31, 2017 as compared to regulatory requirements are as follows:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>March 31, 2018 (Unaudited)</b>						
<b>PDL Community Bancorp</b>						
Total Capital to Risk-Weighted Assets	\$ 182,523	26.17%	\$ 55,804	8.00%	\$ 69,756	10.00%
Tier 1 Capital to Risk-Weighted Assets	173,766	24.91%	41,853	6.00%	55,804	8.00%
Common Equity Tier 1 Capital Ratio	173,766	24.91%	31,390	4.50%	45,341	6.50%
Tier 1 Capital to Total Assets	173,766	18.59%	37,396	4.00%	46,746	5.00%
<b>Ponce Bank</b>						
Total Capital to Risk-Weighted Assets	\$ 142,971	20.55%	\$ 55,669	8.00%	\$ 69,587	10.00%
Tier 1 Capital to Risk-Weighted Assets	134,235	19.29%	41,752	6.00%	55,669	8.00%
Common Equity Tier 1 Capital Ratio	134,235	19.29%	31,314	4.50%	45,231	6.50%
Tier 1 Capital to Total Assets	134,235	14.27%	37,632	4.00%	47,040	5.00%

## Notes to Unaudited Consolidated Financial Statements

As of March 31, 2018 (Unaudited) and December 31, 2017, and Three Months Ended March 31, 2018 and 2017 (Unaudited)

(Dollars in thousands, unless otherwise stated)

**Note 13. Regulatory Capital Requirements (Continued)****December 31, 2017****PDL Community Bancorp**

Total Capital to Risk-Weighted Assets	\$ 181,196	26.57%	\$ 54,557	8.00%	\$ 68,196	10.00%
Tier 1 Capital to Risk-Weighted Assets	172,603	25.31%	40,917	6.00%	54,557	8.00%
Common Equity Tier 1 Capital Ratio	172,603	25.31%	30,688	4.50%	44,327	6.50%
Tier 1 Capital to Total Assets	172,603	20.02%	34,501	4.00%	43,127	5.00%

**Ponce Bank**

Total Capital to Risk-Weighted Assets	\$ 141,120	20.73%	\$ 54,447	8.00%	\$ 68,059	10.00%
Tier 1 Capital to Risk-Weighted Assets	132,577	19.48%	40,835	6.00%	54,447	8.00%
Common Equity Tier 1 Capital Ratio	132,577	19.48%	30,626	4.50%	44,238	6.50%
Tier 1 Capital to Total Assets	132,577	14.67%	36,152	4.00%	45,190	5.00%

**Note 14. Accumulated Other Comprehensive Income (Loss)**

The components of accumulated other comprehensive income (loss) are as follows:

	March 31, 2018		
	December 31, 2017	(Unaudited) Current Year Change	March 31, 2018
Unrealized gains (losses) on securities available for sale, net	\$ (221)	\$ (179)	\$ (400)
Unrealized losses on pension benefits, net	(7,630)	(22)	(7,652)
<b>Total</b>	<b>\$ (7,851)</b>	<b>\$ (201)</b>	<b>\$ (8,052)</b>

  

	December 31, 2017		
	December 31, 2016	Current Year Change	December 31, 2017
Unrealized gains (losses) on securities available for sale, net	\$ (166)	\$ (55)	\$ (221)
Unrealized gains (losses) on pension benefits, net	(6,084)	(1,546)	(7,630)
<b>Total</b>	<b>\$ (6,250)</b>	<b>\$ (1,601)</b>	<b>\$ (7,851)</b>

**Note 15. Transactions With Related Parties**

Directors and officers of the Company have been customers of and have had transactions with the Bank, and it is expected that such persons will continue to have such transactions in the future. Aggregate loan transactions with related parties for the three months ended March 31, 2018 and 2017 were as follows:

	For the Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
Beginning balance	\$ 1,351	\$ 1,573
Originations	11	—
Payments	(33)	(33)
Ending balance	<u>\$ 1,329</u>	<u>\$ 1,540</u>

The Company held deposits in the amount of \$6,309 and \$5,959 from officers and directors at March 31, 2018 and December 31, 2017, respectively.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### General

Management's discussion and analysis of financial condition and results of operations at March 31, 2018 and December 31, 2017, and for the three months ended March 31, 2018 and 2017 is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited financial statements and the notes thereto appearing in Part I, Item 1, of this quarterly report on Form 10Q.

### Cautionary Note Regarding Forward-Looking Statements

This quarterly report contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "assume," "plan," "seek," "expect," "will," "may," "should," "indicate," "would," "believe," "contemplate," "continue," "target" and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to implement and change our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, our mortgage banking revenues, the fair value of financial instruments or our level of loan originations, or increase the level of defaults, losses and prepayments on loans we have made and make;
- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements, including as a result of Basel III;
- the impact of the Dodd-Frank Act and the implementing regulations;
- changes in the quality or composition of our loan or investment portfolios;
- technological changes that may be more difficult or expensive than expected;
- the inability of third party providers to perform as expected;
- our ability to manage market risk, credit risk and operational risk in the current economic environment;
- our ability to enter new markets successfully and capitalize on growth opportunities;

- our ability to successfully integrate into our operations any assets, liabilities, customers, systems and management personnel we may acquire and our ability to realize related revenue synergies and cost savings within expected time frames, and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to retain key employees;
- our compensation expense associated with equity allocated or awarded to our employees; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we may own.

Additional factors that may affect our results are discussed in Form 10-K under the heading "Risk Factors" filed with the SEC on April 2, 2018. As of March 31, 2018, the risk factors of the Company have not changed materially from those disclosed in Form 10-K.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

### Summary of Significant Accounting Policies

The discussion and analysis of the financial condition and results of operations are based on our consolidated financial statements, which are prepared in conformity with U.S. GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. We consider the accounting policies discussed below to be significant accounting policies. The estimates and assumptions that we use are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we intend to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to non-public companies. We intend to take advantage of the benefits of this extended transition period. Accordingly, our consolidated financial statements may not be comparable to companies that comply with such new or revised accounting standards.

The following represent our significant accounting policies:

**Loans Receivable.** Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at current unpaid principal balances, net of the allowance for loan losses and including net deferred loan origination fees and costs.

Interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the interest method without anticipating prepayments.

A loan is moved to nonaccrual status typically after 90 days of non-payment. The accrual of interest on mortgage and business loans is generally discontinued at the time the loan becomes 90 days past due unless the loan is well-secured and in process of collection. Consumer loans are typically charged-off no later than 120 days past due. Past-due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off if collection of principal or interest is considered doubtful. All nonaccrual loans are considered impaired loans.

All interest accrued but not received for loans placed on nonaccrual are reversed against interest income. Interest received on such loans is accounted for on the cash-basis or recorded against principal balances only, until qualifying for return to accrual. Cash-basis interest recognition is only applied on nonaccrual loans with a sufficient collateral margin to ensure no doubt with respect to the collectability of principal. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and remain current for a period of time (typically six months) and future payments are reasonably assured.

**Allowance for Loan Losses.** The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance, or portion thereof, is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings ("TDR") and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impaired loans are measured for impairment using the fair value of the collateral, present value of cash flows, or the observable market price of the note. Impairment measurement for all collateral dependent loans, excluding accruing TDR's is based on the fair value of collateral, less costs to sell, if necessary. A loan is considered collateral dependent if repayment of the loan is expected to be provided solely by the sale or the operation of the underlying collateral.

When a loan is modified in a TDR, management evaluates for any possible impairment using either the discounted cash flows method, where the value of the modified loan is based on the present value of expected cash flows, discounted at the contractual interest rate of the original loan agreement, or by using the fair value of the collateral less selling costs if repayment under the modified terms becomes doubtful.

When establishing the allowance for loan losses, management categorizes loans into risk categories reflecting individual borrower earnings, liquidity, leverage and cash flow, as well as the nature of underlying collateral. The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual losses experienced over a rolling 12 quarter average. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Management believes that the allowance for loan losses is appropriate at March 31, 2018. The allowance for loan losses is reviewed by the board of directors on a quarterly basis in compliance with regulatory requirements. In addition, various regulatory agencies periodically review the allowance for loan losses.

**Securities.** Management determines the appropriate classification of securities at the date individual investment securities are acquired, and the appropriateness of such classification is reassessed at each statement of financial condition date.

Debt securities that management has the positive intent and ability to hold to maturity, if any, are classified as "held to maturity" and recorded at amortized cost. Trading securities, if any, are carried at fair value, with unrealized gains and losses recognized in earnings. Securities not classified as held to maturity or trading, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of taxes. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Management evaluates securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the consolidated statement of income and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the discounted present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method. The sale of a held-to-maturity security within three months of its maturity date or after collection of at least 85% of the principal outstanding at the time the security was acquired is considered a maturity for purposes of classification and disclosure.

**Income Taxes.** Income taxes are recognized under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that all or some portion of the deferred tax assets will not be realized.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits, if any, would be classified as additional provision for income taxes in the consolidated statements of income.

Refer to Note 1 to the Consolidated Financial Statements for management’s assessment of recently issued accounting pronouncements.

#### **Comparison of Financial Condition at March 31, 2018 and December 31, 2017**

**Total Assets.** Total assets were \$949.6 million at March 31, 2018, an increase of \$24.1 million, or 2.6%, when compared to \$925.5 million at December 31, 2017 primarily due to the continuation of our loan growth strategy.

**Cash and Cash Equivalents.** Cash and cash equivalents decreased \$745,000, or 1.2%, to \$59.0 million at March 31, 2018, when compared to \$59.7 million at December 31, 2017. The decrease in cash and cash equivalents was primarily driven by the funding of the loan portfolio due to the increase in loan originations.

**Net Loans Receivable.** Net loans receivable increased \$24.3 million, or 3.0%, to \$823.0 million at March 31, 2018 from \$798.7 million at December 31, 2017. During the three months ended March 31, 2018, there were increases totaling \$61.9 million in loans, \$10.1 million of which were one-to-four family residential loans, \$10.9 million were non-residential loans, \$20.9 million were multi-family loans, \$19.7 million were land and construction loans (including \$19.3 million of advances), \$39,000 were business loans and the remaining \$253,000 were consumer loans. Principal repayments and other credits to net loans receivable for the three months ended March 31, 2018 were \$37.6 million.

One-to-four family investor-owned residential real estate loans increased \$3.3 million, or 1.2%, to \$290.5 million at March 31, 2018 from \$287.2 million at December 31, 2017; one-to-four family owner-occupied residential real estate loans decreased \$4.0 million or 4.0%, to \$96.9 million at March 31, 2018 from \$100.9 million at December 31, 2017; multi-family loans increased \$15.9 million, or 8.4%, to \$204.5 million at March 31, 2018 from \$188.6 million at December 31, 2017; nonresidential mortgages increased \$7.3 million, or 4.8%, to \$158.5 million at March 31, 2018 from \$151.2 million at December 31, 2017; construction and land loans increased \$731,000, or 1.1%, to \$68.0 million at March 31, 2018 from \$67.2 million at December 31, 2017. Business loans increased \$1.0 million, or 7.8%, to \$13.9 million at March 31, 2018 from \$12.9 million at December 31, 2017. Consumer loans at March 31, 2018, totaled \$975,000, an increase of 89,000, or 10.0%, from \$886,000 at December 31, 2017.

**Available-for-sale securities.** Available-for-sale securities, consisting primarily of U.S. Government agency sponsored securities, as well as mortgage-backed securities decreased \$475,000, or 1.6% to \$28.4 million at March 31, 2018 from \$28.9 million at December 31, 2017. The decrease was primarily driven by the mark-to-market adjustment of the portfolio.

**Deposits.** Total deposits increased \$38.3 million, or 5.4%, to \$752.3 million at March 31, 2018 from \$714.0 million at December 31, 2017. The increase was primarily due to increases in certificates of deposits of \$26.8 million, or 6.5%, to \$436.9 million at March 31, 2018 from \$410.1 million at December 31, 2017 and demand accounts of \$7.0 million, or 6.8%, to \$110.0 million at March 31, 2018 from \$103.0 million at December 31, 2017. In addition, money market accounts increased \$5.5 million, or 11.8%, to \$52.0 million at March 31, 2018 from \$46.5 million at December 31, 2017. The increase in certificates of deposits was primarily attributed to \$17.8 million in brokered deposits and \$17.1 million in listing service deposits, offset by \$8.1 million in maturities and draws. The increase in demand deposits is mainly due to an increase of \$10.7 million in commercial checking accounts, offset by maturities and draws during the period. Brokered and listing service deposits are alternative funding sources that have previously been available, but have not historically been used as a funding source. Deposits obtained through a listing service are not considered brokered because the listing service does not engage in the business of placing deposits; it simply compiles information about interest rates offered on certificates of deposits by other insured depository institutions, then makes the list available to subscribing financial institutions. The brokered and listing service certificates of deposits provide an alternative funding source to fund loan growth and to lock in interest rates and complementary maturity structures in a rising rate environment.

**Borrowings.** We had outstanding borrowings at March 31, 2018 and December 31, 2017 of \$20.0 million and \$36.4 million, respectively. These borrowings are in the form of advances from the Federal Home Loan Bank of New York (FHLB) and borrowings from our correspondent banking relationships. Historically, we have had limited reliance on borrowings to fund our operations. However, we may utilize advances from the FHLB and borrowings from our correspondent bank relationships to supplement the supply of investable funds and further our organic loan growth.

**Stockholders' Equity.** Total stockholders' equity increased \$929,000, or 0.4%, to \$165.7 million at March 31, 2018 from \$164.8 million at December 31, 2017. The increase was substantially due to net income of \$941,000, partially offset by a decrease of \$179,000 related to unrealized losses on available-for-sale securities, and a decrease of \$22,000 in unrealized losses related to the defined benefit pension plan.

#### **Comparison of Operating Results for the Three Months Ended March 31, 2018 and 2017**

**General.** Net income increased \$378,000, or 67.1%, to \$941,000 for the three months ended March 31, 2018, compared to \$563,000 for the three months ended March 31, 2017. The increase was due to an increase in net interest income after provision for loan losses, which increased \$1.3 million, or 18.5%, to \$8.6 million for the three months ended March 31, 2018 from \$7.2 million for the same period last year, and an increase in non-interest income of \$127,000, or 16.8%, to \$885,000 for the three months ended March 31, 2018 from \$758,000 for the three months ended March 31, 2017. These increases were partially offset by an increase in non-interest expense of \$1.2 million, or 16.4%, to \$8.3 million for the three months ended March 31, 2018 from \$7.1 for the same period last year.

**Interest Income.** Interest and dividend income increased \$1.9 million, or 21.6%, to \$10.7 million for the three months ended March 31, 2018 from \$8.8 million for the same period last year. The increase was due primarily to a \$1.8 million, or 20.9%, increase in interest income on loans, which is our primary source of interest income. Our average balance of loans increased \$154.3 million, or 23.3%, to \$816.4 million for the three months ended March 31, 2018 from \$662.2 million for the three months ended March 31, 2017. The increase in average balance resulted primarily from increases in the multifamily residential and nonresidential mortgage loan portfolios. Our average yield on loans decreased 10 basis points to 5.16% for the three months ended March 31, 2018 from 5.26% for the same period last year, as higher-yielding loans have been repaid or refinanced.



Interest and dividends income on investment securities and FHLB stock increased \$122,000, or 60.4%, to \$324,000 for the three months ended March 31, 2018 from \$202,000 for the same period last year. The average rate we earned on investment securities and FHLB stock increased 43 basis points to 1.74% for the three months ended March 31, 2018 from 1.31% for the same period last year. Our average balance of investment securities and FHLB stock and FHLB demand deposit account increased \$13.1 million, or 21.0%, to \$75.4 million for the three months ended March 31, 2018 from \$62.3 million for the three months ended March 31, 2017.

**Interest Expense.** Interest expense increased \$537,000 or 35.9%, to \$2.0 million for the three months ended March 31, 2018 from \$1.5 million for the same period last year. The increase was the result of an increase in interest expense on borrowings, certificates of deposit, and other deposits. Specifically, interest expense on certificates of deposits increased \$434,000, or 33.0%, to \$1.8 million for the three months ended March 31, 2018 from \$1.3 million for the same period in 2017. The average balance of certificates of deposit increased \$67.8 million, or 18.7%, to \$430.2 million for the three months ended March 31, 2018 from \$362.5 million for the same period last year, while the average rate we paid on certificates of deposit increased 18 basis points to 1.65% for the three months ended March 31, 2018 from 1.47 for the three months ended March 31, 2017.

Interest expense on other deposits and borrowings increased \$103,000 to \$283,000 for the three months ended March 31, 2018 from \$180,000 for the three months ended March 31, 2017. The average balance of other deposits and borrowings increased \$7.1 million, or 3.3%, to \$219.9 million for the three months ended March 31, 2018 from \$212.9 million for the same period last year, and the average rate we paid on other deposits and borrowings increased 18 basis points to 0.52% for the three months ended March 31, 2018 from 0.34% for the same period in 2017, reflecting higher market interest rates.

**Net Interest Income.** Net interest income increased \$1.4 million, or 19.2%, to \$8.7 million for the three months ended March 31, 2018 from \$7.3 million for the three months ended March 31, 2017, primarily as a result of increasing loan volumes offset by lower market yields on earning assets. Our average net interest-earning assets increased by \$91.0 million, or 63.1%, to \$235.3 million for the three months ended March 31, 2018 from \$144.2 million for the same period in 2017, due primarily to our loan growth, described above. Our net interest rate spread decreased by 26 basis points to 3.61% for the three months ended March 31, 2018 from 3.88% for the three months ended March 31, 2017, and our net interest margin decreased by 14 basis points to 3.95% for the three months ended March 31, 2018 from 4.09% for the same period last year, reflecting primarily a higher cost of funds and lower market yields on earning assets.

An increase in interest rates will present us with a challenge in managing our interest rate risk. As a general matter, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets, which can result in interest expense increasing more rapidly than increases in interest income as interest rates increase. Therefore, increases in interest rates may adversely affect our net interest income and net economic value, which in turn would likely have an adverse effect on our results of operations. We expect that our net interest income and our net economic value would decrease as a result of an instantaneous increase in interest rates. To help manage interest rate risk, we are promoting core deposit products while concurrently diversifying our loan portfolio by introducing new lending programs. See “—Management of Market Risk” for additional information.

**Provision for Loan Losses.** Provisions for loan losses are charged to operations to establish an allowance for loan losses at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management analyzes several qualitative loan portfolio risk factors including, but not limited to, management’s ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses. See “Summary of Significant Accounting Policies” and “—Allowance for Loan Losses” for additional information.

After an evaluation of these factors, we established a provision for loan losses for the three months ended March 31, 2018 of \$94,000 as compared to \$52,000 for the three months ended March 31, 2017. Our allowance for loan losses was \$11.4 million at March 31, 2018 as compared to \$11.1 million at December 31, 2017. The allowance for loan losses to total loans remained the same at 1.37% at March 31, 2018 and December 31, 2017, and the allowance for loan losses to non-performing loans increased to 122.8% at March 31, 2018 from 97.1% at December 31, 2017.

To the best of our knowledge, we have recorded all loan losses that are both probable and reasonable to estimate at March 31, 2018. However, future changes in the factors described above, including, but not limited to, actual loss experience with respect to our loan portfolio, could result in material increases in our provision for loan losses. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, periodically reviews our allowance for loan losses and as a result of such reviews, we may determine to adjust our allowance for loan losses. However, regulatory agencies are not directly involved in establishing the allowance for loan losses as the process is our responsibility and any increase or decrease in the allowance is the responsibility of management.

**Non-interest Income.** The increase in non-interest income for the three months ended March 31, 2018 compared to the same period in 2017 was primarily due to an increase of \$155,000 in other non-interest income. The other category included loans which were sold in January 2018 at a gain of \$175,900, offset by decreases in other items, which increased other non-interest income by such amount for the three months ended March 31, 2018.

	For the Three Months Ended March 31,		Change	
	2018	2017	Amount	Percent
	(Dollars in thousands)			
Service charges and fees	\$ 223	\$ 229	\$ (6)	(2.6%)
Brokerage commissions	96	118	(22)	(18.6%)
Late and prepayment charges	211	211	—	0.0%
Other	355	200	155	77.5%
Total noninterest income	<u>\$ 885</u>	<u>\$ 758</u>	<u>\$ 127</u>	<u>16.8%</u>

**Non-interest Expenses.** For the three months ended March 31, 2018 compared to the same period in 2017, compensation and benefits expense increased by \$629,000 mainly due to our investment in our employee base, including the senior management team and our sales and relationship management personnel, to help support our continued growth strategy. Occupancy expenses increased \$66,000 and office supplies, telephone and postage increased \$46,000. Other operating expenses increased by \$493,000, primarily due to increases in legal and consultant fees of \$425,000. These increases were partially offset by a decrease in data processing expenses of \$40,000 and decreases of \$40,000 in direct loan expenses, for the three months ended March 31, 2018 compared to the same period in 2017.

	For the Three Months Ended March 31,		Change	
	2018	2017	Amount	Percent
	(Dollars in thousands)			
Compensation and benefits	\$ 4,458	\$ 3,829	\$ 629	16.4%
Occupancy	1,491	1,425	66	4.6%
Data processing	408	448	(40)	(8.9%)
Direct loan expense	155	195	(40)	(20.5%)
Insurance and surety bond premiums	89	82	7	8.5%
Office supplies, telephone and postage	300	254	46	18.1%
Federal deposit insurance premiums	68	66	2	3.0%
Other operating expenses	1,290	797	493	61.9%
Total noninterest expense	<u>\$ 8,259</u>	<u>\$ 7,096</u>	<u>\$ 1,163</u>	<u>16.4%</u>

**Income Tax Provision.** We incurred income tax expense of \$268,000 and \$345,000 for the three months ended March 31, 2018 and 2017, respectively, resulting in effective rates of 22.2% and 38.0%, respectively. At March 31, 2018 net deferred tax assets amounted to \$3.8 million compared to \$3.9 million at December 31, 2017. The decrease in tax expense resulted primarily from a reduction of the effective tax rate due to federal tax reform enacted in December 2017.

## Average Balance Sheets

The following tables set forth average balance sheets, average yields and costs, and certain other information at the dates and for the periods indicated. No tax-equivalent yield adjustments have been made, as the effects would be immaterial. All average balances are monthly average balances. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or interest expense. Loan balances exclude loans held for sale.

	For the Three Months Ended March 31,					
	2018			2017		
	Average Outstanding Balance	Interest	Average Yield/Rate (1)	Average Outstanding Balance	Interest	Average Yield/Rate (1)
(Unaudited)						
(Dollars in thousands)						
<b>Interest-earning assets:</b>						
Loans	\$ 816,437	\$ 10,386	5.16%	\$ 662,174	\$ 8,592	5.26%
Available-for-sale securities	28,692	105	1.48%	52,341	183	1.42%
Other (2)	46,701	219	1.90%	9,963	19	0.77%
Total interest-earning assets	891,830	10,710	4.87%	724,478	8,794	4.92%
Non-interest-earning assets	35,429			32,887		
Total assets	<u>\$ 927,259</u>			<u>\$ 757,365</u>		
<b>Interest-bearing liabilities:</b>						
Savings accounts	\$ 124,473	\$ 131	0.43%	\$ 128,859	\$ 123	0.39%
Interest-bearing demand	77,298	53	0.28%	71,043	27	0.15%
Certificates of deposit	430,242	1,750	1.65%	362,470	1,316	1.47%
Total deposits	632,013	1,934	1.24%	562,372	1,466	1.06%
Advance payments by borrowers	6,572	1	0.06%	4,928	1	0.08%
Borrowings	18,164	98	2.19%	12,955	29	0.91%
Total interest-bearing liabilities	656,749	2,033	1.26%	580,255	1,496	1.05%
<b>Non-interest-bearing liabilities:</b>						
Non-interest-bearing demand	99,367	—		80,066	—	
Other non-interest-bearing liabilities	5,104	—		3,247	—	
Total non-interest-bearing liabilities	104,471	—		83,313	—	
Total liabilities	761,220	2,033		663,568	1,496	
Total equity	166,039			93,797		
Total liabilities and total equity	<u>\$ 927,259</u>		1.26%	<u>\$ 757,365</u>		1.05%
Net interest income		<u>\$ 8,677</u>			<u>\$ 7,298</u>	
Net interest rate spread (3)			3.61%			3.88%
Net interest-earning assets (4)	<u>\$ 235,081</u>			<u>\$ 144,223</u>		
Net interest margin (5)			3.95%			4.09%
Average interest-earning assets to interest-bearing liabilities			135.79%			124.86%

(1) Annualized where appropriate.

(2) Includes FHLB demand accounts and FHLB stock dividends.

(3) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate of interest-bearing liabilities.

(4) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(5) Net interest margin represents net interest income divided by average total interest-earning assets.

## Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume.

	For the Three Months Ended March 31, 2018 vs. 2017		
	(Unaudited)		
	Increase (Decrease) Due to		Total Increase
	Volume	Rate	(Decrease)
(In thousands)			
<b>Interest-earning assets:</b>			
Loans	\$ 2,636	\$ (842)	\$ 1,794
Securities	(97)	19	(78)
Other	(327)	527	200
Total interest-earning assets	<u>2,212</u>	<u>(296)</u>	<u>1,916</u>
<b>Interest-bearing liabilities:</b>			
Savings accounts	(41)	49	8
Interest-bearing demand	(70)	96	26
Certificates of deposit	(328)	762	434
Total deposits	<u>(439)</u>	<u>907</u>	<u>468</u>
Advance payment by borrowers	1	(1)	—
Borrowings	(164)	233	69
Total interest-bearing liabilities	<u>(602)</u>	<u>1,139</u>	<u>537</u>
Change in net interest income	<u>\$ 2,814</u>	<u>\$ (1,435)</u>	<u>\$ 1,379</u>

## Management of Market Risk

**General.** Our most significant form of market risk is interest rate risk because, as a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of our financial condition and results of operations to changes in market interest rates. Our Asset/Liability Management Committee is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the policy and guidelines approved by our Board of Directors. We currently utilize a third-party modeling solution that is prepared on a quarterly basis, to evaluate our sensitivity to changing interest rates, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors.

We do not engage in hedging activities, such as engaging in futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligation residual interests, real estate mortgage investment conduit residual interests or stripped mortgage backed securities.

**Net Interest Income.** We analyze our sensitivity to changes in interest rates through a net interest income model. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings. We estimate what our net interest income would be for a 12-month period. We then calculate what the net interest income would be for the same period under the assumptions that the United States Treasury yield curve increases or decreases instantaneously by 100 basis point increments, with changes in interest rates representing immediate and permanent shifts in the yield curve. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the "Change in Interest Rates" in the net present value table below.

The table below sets forth, as of March 31, 2018, the calculation of the estimated changes in our net interest income that would result from the designated immediate changes in the United States Treasury yield curve.

Rate Shift (1)	Net Interest Income Year 1 Forecast (Dollars in thousands)	Year 1 Change from Level
+400	\$ 33,773	-1.65%
+300	34,297	-0.12%
+200	34,593	0.74%
+100	34,634	0.86%
Level	34,338	0.00%
-100	33,721	-1.80%

(1) Assumes an immediate uniform change in interest rates at all maturities.

The table above indicates that at March 31, 2018, in the event of an instantaneous 200 basis point increase in interest rates, we would experience a 0.74% increase in net interest income, and in the event of an instantaneous 100 basis point decrease in interest rates, we would experience a 1.80% decrease in net interest income.

**Net Present Value.** We also compute amounts by which the net present value of our assets and liabilities ("NPV") would change in the event of a range of assumed changes in market interest rates. This model uses a discounted cash flow analysis and an option-based pricing approach to measure the interest rate sensitivity of net portfolio value. The model estimates the economic value of each type of asset, liability and off-balance sheet contract under the assumptions that the United States Treasury yield curve increases or decreases instantaneously by 100 basis point increments, with changes in interest rates representing immediate and permanent shifts in the yield curve.

The table below sets forth, as of March 31, 2018, the calculation of the estimated changes in our NPV that would result from the designated immediate changes in the United States Treasury yield curve.

Change in Interest Rates (basis points) (1)	Estimated NPV (2)	Estimated Increase (Decrease) in NPV		NPV as a Percentage of Present Value of Assets (3)	
		Amount	Percent	NPV Ratio (4)	Increase (Decrease) (basis points)
+400	\$ 135,423	\$ (31,812)	-19.02%	15.24%	(200)
+300	144,155	(23,080)	-13.80%	15.86%	(138)
+200	152,778	(14,457)	-8.64%	16.44%	(80)
+100	161,086	(6,149)	-3.68%	16.95%	(29)
-----	167,235	—	0.00%	17.24%	—
-100	171,894	4,659	2.79%	17.37%	13

(1) Assumes an immediate uniform change in interest rates at all maturities.

(2) NPV is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.

(4) NPV Ratio represents NPV divided by the present value of assets.

The table above indicates that at March 31, 2018, in the event of an instantaneous 200 basis point increase in interest rates, we would experience an 8.64% decrease in net present value, and in the event of an instantaneous 100 basis point decrease in interest rates, we would experience a 2.79% increase in net present value.

**GAP Analysis.** In addition, we analyze our interest rate sensitivity by monitoring our interest rate sensitivity "gap." Our interest rate sensitivity gap is the difference between the amount of our interest-earning assets maturing or repricing within a specific time period and the amount of our interest bearing-liabilities maturing or repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets maturing or repricing during a period exceeds the amount of interest rate sensitive liabilities maturing or repricing during the same period, and a gap is considered negative when the amount of interest rate sensitive liabilities maturing or repricing during a period exceeds the amount of interest rate sensitive assets maturing or repricing during the same period.

The following table sets forth our interest-earning assets and our interest-bearing liabilities at March 31, 2018, which are anticipated to reprice or mature in each of the future time periods shown based upon certain assumptions. The amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at March 31, 2018, on the basis of contractual maturities, anticipated prepayments and scheduled rate adjustments. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and as a result of contractual rate adjustments on adjustable-rate loans.

	March 31, 2018 (Unaudited)								Total
	Time to Repricing								
	Zero to 90 Days	Zero to 180 Days	Zero Days to One Year	Zero Days to Two Years	Zero Days to Five Years	Five Years Plus	Total Earning Assets & Costing Liabilities	Non Earning Assets & Non Costing Liabilities	
(Dollars in thousands)									
<b>Assets:</b>									
Interest-bearing deposits in banks	\$ 52,409	\$ 52,409	\$ 52,409	\$ 52,409	\$ 52,409	\$ 52,409	\$ 52,409	\$ 6,570	\$ 58,979
Securities	4,257	8,402	16,087	26,169	28,928	28,928	28,928	(506)	28,422
Net loans (includes LHFS)	62,517	107,634	187,382	332,180	748,490	825,629	825,629	(2,615)	823,014
FHLB Stock	1,674	1,674	1,674	1,674	1,674	1,674	1,674	—	1,674
Other assets	3	3	3	3	3	3	3	37,531	37,534
Total	\$ 120,860	\$ 170,122	\$ 257,555	\$ 412,435	\$ 831,504	\$ 908,643	\$ 908,643	\$ 40,980	\$ 949,623
<b>Liabilities:</b>									
Non-maturity deposits	\$ 205,317	\$ 205,317	\$ 205,317	\$ 205,317	\$ 205,317	\$ 205,317	\$ 205,317	\$ 110,030	\$ 315,347
Certificates of deposit	18,524	45,602	183,469	264,177	436,920	436,920	436,920	—	436,920
Other liabilities	20,000	20,000	20,000	20,000	20,000	20,000	20,000	11,642	31,642
Total liabilities	243,841	270,919	408,786	489,494	662,237	662,237	662,237	121,672	783,909
Capital	—	—	—	—	—	—	—	165,714	165,714
Total liabilities and capital	\$ 243,841	\$ 270,919	\$ 408,786	\$ 489,494	\$ 662,237	\$ 662,237	\$ 662,237	\$ 287,386	\$ 949,623
Asset/liability gap	\$ (122,981)	\$ (100,797)	\$ (151,231)	\$ (77,059)	\$ 169,267	\$ 246,406	\$ 246,406		
Gap/assets ratio	49.57%	62.79%	63.00%	84.26%	125.56%	137.21%	137.21%		

At March 31, 2018, our asset/liability gap from zero days to one year was (\$151.2) million, resulting in a gap/assets ratio of 63.00%.

The following table sets forth our interest-earning assets and our interest-bearing liabilities at December 31, 2017, which are anticipated to reprice or mature in each of the future time periods shown based upon certain assumptions. The amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2017, on the basis of contractual maturities, anticipated prepayments and scheduled rate adjustments. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and as a result of contractual rate adjustments on adjustable-rate loans.

	December 31, 2017							Total Earning Assets & Costing Liabilities	Non Earning Assets & Non Costing Liabilities	Total
	Time to Repricing									
	Zero to 90 Days	Zero to 180 Days	Zero Days to One Year	Zero Days to Two Years	Zero Days to Five Years	Five Years Plus				
(Dollars in thousands)										
<b>Assets:</b>										
Interest-bearing deposits in banks	\$ 34,979	\$ 34,979	\$ 34,979	\$ 34,979	\$ 34,979	\$ 34,979	\$ 34,979	\$ 34,979	\$ 24,745	\$ 59,724
Securities	4,124	7,714	14,876	25,407	29,234	29,234	29,234	29,234	(337)	28,897
Net loans (includes LHFS)	56,623	108,029	191,573	321,571	738,534	798,834	798,834	798,834	(131)	798,703
FHLB Stock	—	—	—	—	1,511	1,511	1,511	1,511	—	1,511
Other assets	—	—	—	—	3	3	3	3	36,684	36,687
Total	\$ 95,726	\$ 150,722	\$ 241,428	\$ 381,957	\$ 804,261	\$ 864,561	\$ 864,561	\$ 864,561	\$ 60,961	\$ 925,522
<b>Liabilities:</b>										
Non-maturity deposits	\$ 207,452	\$ 207,452	\$ 207,452	\$ 207,452	\$ 207,452	\$ 207,452	\$ 207,452	\$ 207,452	\$ 96,472	\$ 303,924
Certificates of deposit	40,874	80,015	158,836	241,656	407,800	410,061	410,061	410,061	—	410,061
Other liabilities	20,000	20,000	20,000	20,000	20,000	29,400	36,400	36,400	10,352	46,752
Total liabilities	268,326	307,467	386,288	469,108	635,252	646,913	653,913	653,913	106,824	760,737
Capital	—	—	—	—	—	—	—	—	164,785	164,785
Total liabilities and capital	\$ 268,326	\$ 307,467	\$ 386,288	\$ 469,108	\$ 635,252	\$ 646,913	\$ 653,913	\$ 653,913	\$ 271,609	\$ 925,522
Asset/liability gap	\$ (172,600)	\$ (156,745)	\$ (144,860)	\$ (87,151)	\$ 169,009	\$ 217,648	\$ 210,648	\$ 210,648		
Gap/assets ratio	35.68%	49.02%	62.50%	81.42%	126.61%	133.64%	132.21%			

At December 31, 2017, our asset/liability gap from zero days to one year was (\$144.9 million), resulting in a gap/assets ratio of 62.50%.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net interest income and net economic value tables presented assume that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the net interest income and NPV tables provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on net interest income and NPV and will differ from actual results. Furthermore, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have features that restrict changes in interest rates both on a short-term basis and over the life of the asset. In the event of changes in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the gap table.

Interest rate risk calculations also may not reflect the fair values of financial instruments. For example, decreases in market interest rates can increase the fair values of our loans, deposits and borrowings.

## Liquidity and Capital Resources

Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, principal and interest payments on loans and securities and proceeds from the sale of loans. We also have the ability to borrow from the FHLB of New York. At March 31, 2018 and December 31, 2017, we had \$20.0 million and \$16.4 million, respectively, of term and overnight outstanding advances from the FHLB, and also had a guarantee from the FHLB through a standby letter of credit of \$6.6 million. At March 31, 2018, we had eligible collateral of approximately \$73.5 million in mortgage loans available to secure advances from the Federal Home Loan Bank of New York. We also have an unsecured line of credit of \$22.0 million with one of our correspondent banks, of which we had none and \$20.0 million outstanding at March 31, 2018 and December 31, 2017, respectively. We did not have any securities sold under repurchase agreements with brokers as of March 31, 2018 and December 31, 2017.

Although maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and competition. Our most liquid assets are cash and interest-bearing deposits in banks. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period.

Net cash provided by operating activities was \$2.4 million and \$2.9 million for the three months ended March 31, 2018 and 2017, respectively. Net cash (used in) investing activities, which consists primarily of disbursements for loan originations and the purchases of securities, offset by principal collections on loans, proceeds from maturing securities and pay downs on mortgage-backed securities, was \$(25.1) million and \$(36.0) million for the three months ended March 31, 2018 and 2017, respectively. Net cash provided by financing activities, consisting of activities in deposit accounts and advances, was \$21.9 million and \$37.8 million for the three months ended March 31, 2018 and 2017, respectively.

We are committed to maintaining an adequate liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Based on our deposit retention experience and current pricing strategy, we anticipate that a significant portion of maturing time deposits will be retained.

At March 31, 2018 and December 31, 2017, we exceeded all of our regulatory capital requirements, and we were categorized as well capitalized at March 31, 2018 and December 31, 2017. Management is not aware of any conditions or events that would change our category.

## Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

**Commitments.** As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. At March 31, 2018 and December 31, 2017, we had outstanding commitments to originate loans and extend credit of \$106.0 million and \$94.8 million, respectively. We anticipate that we will have sufficient funds available to meet our current lending commitments. Certificates of deposit that are scheduled to mature in less than one year from March 31, 2018 totaled \$183.5 million. Management expects that a substantial portion of the maturing time deposits will be renewed. However, if a substantial portion of these deposits is not retained, we may utilize FHLB advances, unsecured credit lines with correspondent banks, or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

**Contractual Obligations.** In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.



**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The information required by this item is included in Part I, Item 2 of this report under “Management of Market Risk”.

**Item 4. Controls and Procedures.**

An evaluation was performed under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2018. Based on that evaluation, the Company’s management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Registrant’s disclosure controls and procedures were effective.

During the quarter ended March 31, 2018, there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

We are not involved in any pending legal proceedings as a plaintiff or a defendant other than routine legal proceeding occurring in the ordinary course of business. At March 31, 2018, we were not involved in any legal proceedings the outcome of which we believe would be material to our financial condition or results of operations.

### Item 1A. Risk Factors.

In addition to the other information set forth in this quarterly report, you should carefully consider the factors discussed in our Form 10-K under the heading “Risk Factors” filed with the SEC on April 2<sup>nd</sup>, 2018. The Company’s evaluation of the risk factors applicable to it has not changed materially from those disclosed in our Form 10-K.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

### Item 3. Defaults Upon Senior Securities.

None

### Item 4. Mine Safety Disclosures.

None

### Item 5. Other Information.

None

**Item 6. Exhibits**

<u>Exhibit Number</u>	<u>Description</u>
3.1	<a href="#"><u>Charter of PDL Community Bancorp (attached as Exhibit 3.1 to the Registrant's amendment No. 1 to the Form S-1 (File No. 333-217275) filed with the Commission on May 22, 2017).</u></a>
3.2	<a href="#"><u>Bylaws of PDL Community Bancorp (attached as Exhibit 3.2 to the Registrant's amendment No. 2 to the Form S-1 (File No. 333-217275) filed with the Commission on July 27, 2017).</u></a>
4.1	<a href="#"><u>Form of Common Stock Certificate of PDL Community Bancorp (attached as Exhibit 4.1 to the Registrant's amendment No. 2 to the Form S-1 (File No. 333-217275) filed with the Commission on July 27, 2017).</u></a>
10.1	<a href="#"><u>Ponce Bank Employee Stock Ownership Plan (attached as Exhibit 10.1 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.2	<a href="#"><u>Ponce Bank ESOP Equalization Plan (attached as Exhibit 10.2 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.3	<a href="#"><u>Ponce De Leon Federal Deferred Compensation Plan (attached as Exhibit 10.3 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.4	<a href="#"><u>Employment Agreement dated as of March 23, 2017, by and between Ponce de Leon Federal Bank and Carlos P. Naudon (attached as Exhibit 10.4 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.5	<a href="#"><u>Form of Employment Agreement to be entered into by and among Ponce Bank Mutual Holding Company, PDL Community Bancorp and Carlos P. Naudon (attached as Exhibit 10.5 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.6	<a href="#"><u>Employment Agreement dated March 23, 2017, by and between Ponce De Leon Federal Bank and Steven Tsavaris (attached as Exhibit 10.6 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.7	<a href="#"><u>Form of Employment Agreement to be entered into by and among Ponce Bank Mutual Holding Company, PDL Community Bancorp and Steven Tsavaris (attached as Exhibit 10.7 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.8	<a href="#"><u>Employment Agreement dated March 31, 2017, by and between Ponce De Leon Federal Bank and Frank Perez (attached as Exhibit 10.8 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.9	<a href="#"><u>Form of Employment Agreement to be entered into by and among Ponce Bank Mutual Holding Company, PDL Community Bancorp and Frank Perez (attached as Exhibit 10.9 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
21.1	<a href="#"><u>Subsidiaries of the Registrant (attached as Exhibit 21.1 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
31.1*	<a href="#"><u>Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2*	<a href="#"><u>Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1*	<a href="#"><u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>

32.2\* [Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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\* Filed herewith.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 14, 2018

Company Name

By: /s/ Carlos P. Naudon

**Carlos P. Naudon**  
**President and Chief Executive Officer**

Date: May 14, 2018

By: /s/ Frank Perez

**Frank Perez**  
**Executive Vice President and Chief Financial Officer**

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Carlos P. Naudon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PDL Community Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 14, 2018

By: /s/ Carlos P. Naudon

**Carlos P. Naudon**  
**President**  
**Chief Executive Officer**

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Frank Perez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PDL Community Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 14, 2018

By: /s/ Frank Perez

**Frank Perez**  
**Executive Vice President**  
**Chief Financial Officer**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of PDL Community Bancorp (the "Company") on Form 10-Q for the period ending March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 14, 2018

By: /s/ Carlos P. Naudon

**Carlos P. Naudon**  
**President**  
**Chief Executive Officer**



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of PDL Community Bancorp (the "Company") on Form 10-Q for the period ending March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 14, 2018

By: /s/ Frank Perez

**Frank Perez**  
**Executive Vice President**  
**Chief Financial Officer**